

HOUSE BUDGET COMMITTEE

Democratic Caucus

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March 9, 2003

Summary and Analysis of President Bush's 2004 Budget

An Update of Selected Sections to Reflect Enactment of
2003 Omnibus Appropriations and the CBO
March 2003 Baseline for Discretionary Programs

Further analysis of the President's budget is available in "Big Tax Cuts, Harmful Program Cuts, and Record Deficits," issued February 7, 2003.

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.

General Notes:

- All years are fiscal years unless otherwise noted.
- Throughout the document, the Congressional Budget Office is abbreviated to CBO. The Office of Management and Budget is abbreviated to OMB.
- Unless otherwise noted, funding levels for discretionary programs are stated in budget authority, and funding levels for entitlements and other direct spending programs represent outlays.
- Unless otherwise noted, the President's 2004 funding levels reflect the amount requested in the President's budget, not CBO's March re-estimate of the President's budget.
- Unless otherwise noted, for discretionary programs, comparisons to the amount needed to maintain constant purchasing power use the CBO March baseline. Unless otherwise noted, for mandatory programs, comparisons to the amount needed to maintain constant purchasing power use the OMB baseline issued with the President's budget.
- This document updates selected sections of the House Budget Committee Democratic staff's February 7, 2003, Summary and Analysis of President Bush's 2004 Budget. For discussion of topics not covered in this update, see the original Summary and Analysis from that date.
- Numbers in tables may not add due to rounding.

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Homeland Security

The homeland security budget spans more than a dozen agencies, the largest of which are the new Department of Homeland Security (57.8 percent of total resources), the Department of Defense (16.2 percent), the Department of Health and Human Services (9.1 percent), and the Department of Justice (5.5 percent). Seventeen of the 19 budget functions contain at least some funding for homeland security activities. The largest amounts for homeland security are contained in Function 050 (National Defense), Function 400 (Transportation), Function 450 (Community and Regional Development), Function 550 (Health), and Function 750 (Administration of Justice).

The transfer of many homeland security activities from other agencies to the new Department of Homeland Security has complicated the task of comparing resources provided for particular programs and activities for 2004 and for previous years. For most accounts, comparisons between the 2004 request and 2003 enacted appropriations cannot be made yet, because neither CBO nor OMB has yet determined how much of the 2003 enacted appropriations should be classified as funding homeland security activities. As a result, this analysis generally compares the 2004 request with the estimated 2003 levels provided by OMB in the President's budget documents.

Overall Funding Levels

- ***Flat Funding for Homeland Security*** — The President's budget includes a total of \$41.3 billion for homeland security activities for 2004. Of this total, \$6.4 billion is for mandatory and fee-funded programs, and the remaining \$35.0 billion is for net appropriated programs. Out of this appropriated total, the budget includes \$10.1 billion for the Department of Defense and other national defense activities, and \$0.1 billion for the State Department and other international affairs programs. This leaves a remainder of \$24.8 billion for domestic appropriated homeland security programs.

The \$41.3 billion in total resources for homeland security is \$312 million more than the Administration's estimate for 2003. This is a nominal increase of 0.8 percent, and at best keeps pace with the amount needed to maintain purchasing power at the Administration's estimated 2003 level.

Homeland Security Funding
(Budget Authority in Billions of Dollars)

	<u>OMB 2003 Estimate</u>	<u>2004</u>	<u>Increase</u>	<u>% Increase</u>
Total Resources	\$41.0	\$41.3	\$0.3	0.8
Mandatory Programs	\$2.0	\$2.9	\$0.9	44.4
Fee-Funded Discretionary Programs	\$3.4	\$3.5	\$0.1	2.7
Net Appropriated Programs:	\$35.6	\$35.0	-\$0.7	-1.9
<i>National Defense (Function 050)</i>	<i>\$11.4</i>	<i>\$10.1</i>	<i>-\$1.3</i>	<i>-11.3</i>
<i>International Affairs</i>	<i>\$0.0</i>	<i>\$0.1</i>	<i>\$0.0</i>	<i>29.3</i>
<i>Domestic Discretionary</i>	<i>\$24.2</i>	<i>\$24.8</i>	<i>\$0.6</i>	<i>2.5</i>

All numbers based on OMB estimates. Numbers may not add exactly due to rounding.

- ***Minimal Increase for Appropriated Domestic Homeland Security Programs*** — The \$24.8 billion net appropriations for domestic homeland security is \$0.6 billion more than the Administration’s estimate for 2003. This is a nominal increase of 2.5 percent, but does not provide a significant increase above the amount needed to maintain purchasing power at the 2003 level.
- ***Budget for the New Department of Homeland Security*** — The federal government’s homeland security activities and budget span many departments and agencies, the most important of which is the new Department of Homeland Security (DHS). As the table below shows, of the total \$41.3 billion budget for 2004, \$23.9 billion is for activities within the DHS; the remaining \$17.5 billion is for other agencies.

Homeland Security Funding, by Agency
(Budget Authority in billions of dollars)

	2004 request	Percentage of request
Department of Homeland Security	23.9	57.8 percent
Other Agencies	17.5	42.2 percent
Total	\$41.3	100 percent

All numbers based on OMB estimates. Numbers may not add exactly due to rounding.

As the following table shows, the DHS budget also includes an additional \$12.3 billion to fund activities that are not connected with homeland security, such as Coast Guard search-and-rescue activities. Thus, the total budget for the DHS is \$36.2 billion, but only 66.0 percent of this funding is used for activities related to homeland security.

Department of Homeland Security Budget
(Budget Authority in billions of dollars)

	2004 Budget Request	Percentage of Request
Homeland Security Activities	23.9	66.0 percent
Non-Homeland Security Activities	12.3	34.0 percent
Total	\$36.2	100 percent

All numbers based on OMB estimates. Numbers may not add exactly due to rounding.

Program Highlights

- ***Bioterrorism*** — For the fight against bioterrorism, the budget includes \$3.6 billion for the Department of Health and Human Services (HHS), \$1.0 billion for DHS, and other, smaller amounts for other agencies. The HHS budget is a \$233 million decrease from the President’s request for 2003. This decrease is due to one-time 2003 costs funding building security and the transfer of responsibility for anthrax vaccine procurement to DHS. The DHS bioterrorism budget contains \$400 million for the Strategic National Pharmaceutical Stockpile and proposed mandatory spending to purchase biodefense countermeasures, such as smallpox and anthrax vaccines. For 2004, this proposal spends \$575 million (the 2004 budget authority for this proposal is \$890 million). For more information on the bioterrorism budgets at HHS and DHS, see *Function 550 (Health)*.
- ***Transportation Security Agency (TSA)*** — The budget includes \$4.8 billion for the TSA, now part of the Department of Homeland Security. This amount is \$346 million (6.7 percent) less than the \$5.1 billion enacted for 2003, the first full year of funding for the new agency. The Administration states that the 2003 total includes one-time start-up and roll-out costs for the agency of \$685 million, which are not needed for 2004. The budget includes: \$4.3 billion for direct aviation security activities; \$85 million for TSA’s land security activities; \$55 million for checking the credentials of transportation workers; and \$65 million for research and development.
- ***No Specific Funding for Port Security Grants*** — The budget does not request specific funds for grants to port authorities for security upgrades. These grants were authorized as part of the port and maritime security legislation passed by the Congress and signed into law in November 2002.
- ***Coast Guard*** — The President’s budget provides a total of \$6.8 billion for the Coast Guard, now part of the Department of Homeland Security. Of this amount, \$2.5 billion is for homeland security activities, and the remainder for non-homeland security activities. For additional information on the Coast Guard budget, see *Function 400 (Transportation)*.

- ***First Responders*** — The budget includes \$3.5 billion in the DHS budget for first responders — the police, fire, rescue, and emergency personnel expected to initially respond to any terrorist attack. The \$3.5 billion includes at least \$500 million for grants to firefighters and at least \$500 million for state and local law enforcement grants. (Elsewhere in the budget, in the budget for the Department of Justice, law enforcement grant programs are reorganized and their funding reduced.) Last year, the Administration also requested \$3.5 billion for grants for first responders, while reducing funding for first responders in other parts of the budget.
- ***Department of Defense (DOD)*** — For 2004, the budget provides \$6.7 billion for DOD homeland security activities. This amount is \$2.1 billion less than the Administration's estimate of the 2003 level. The Administration states that this decrease is the result of one-time force protection investments that were made in 2003 and will not be repeated in 2004. Much of DOD's homeland security funding is for protecting DOD forces and installations. Actual DOD operations against terrorism, such as military operations in Afghanistan, are not considered to be homeland security.

Appropriated Programs

The President's budget includes \$821.8 billion for all appropriated programs and transportation obligation limitations. This is a cut of \$11.0 billion below the level needed to maintain programs and services at their 2003 level (known as the baseline) although it is an increase of \$14.7 billion (1.8 percent) over the 2003 enacted level. As the table below indicates, virtually all of this real cut occurs in domestic appropriations and transportation obligation limitations, which is \$10.9 billion (2.7 percent) below the amount needed to maintain purchasing power at the 2003 level. Homeland security appropriations are \$24.8 billion of the President's total for domestic programs. However, since neither CBO nor OMB has yet compiled a total for 2003 homeland security funding, we cannot say how this compares with the baseline level.

Funding for Appropriated Programs				
(Budget Authority and Obligation Limitations in Billions of Dollars)				
	2004 Baseline	2004 Request	Dollar Change	Percent Change
Domestic Programs	404.9	394.1	-10.9	-2.7
National Defense*	402.0	399.2	-2.8	-0.7
International Affairs	25.9	28.6	+2.7	+10.4
Total	832.9	821.8	-11.0	-1.3

*National Defense represents Function 050, which includes the Department of Defense and the nuclear weapons-related activities of the Department of Energy.

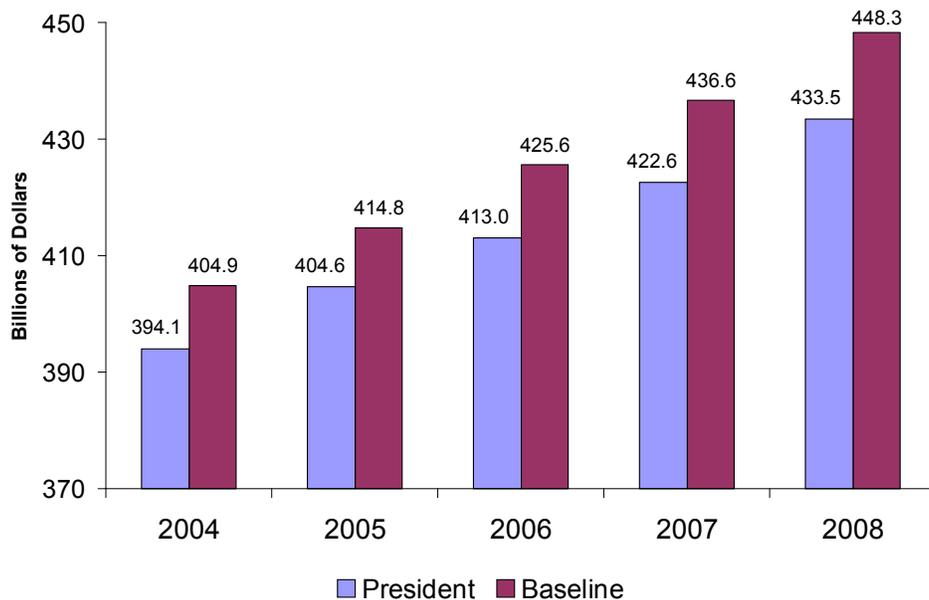
CBO has not yet identified homeland security funding for 2003, so it is distributed across all categories and columns of this table.

Numbers do not add due to rounding.

- ***There is no Four Percent Increase*** — When it released its budget in February, the Administration claimed that it increased funding by four percent over the expected 2003 level. Congress later finalized the 2003 funding, and the end result is that the President's 2004 budget increases appropriations and obligation limitations by only 1.8 percent over the 2003 enacted level. Domestic funding – which includes most appropriations for homeland security – grows by 1.2 percent, defense appropriations grow by 1.8 percent, and international funding grows by 12.5 percent (\$3.2 billion).
- ***Squeeze on Domestic Programs*** — The overall 1.8 percent nominal increase from the 2003 enacted level masks real cuts to domestic programs, which are cut by \$10.9 billion (2.7 percent) below the amount needed to maintain purchasing power at the 2003 level. The budget cuts most domestic programs by even more than 2.7 percent because it includes a few increases for selected high-profile programs, such as special education and veterans health care. After factoring in likely increases for homeland security, the President's 2004 budget has even bigger cuts for most domestic programs.

- Domestic Funding Stays Below Purchasing Power All Five Years** — As the chart below indicates, the 2004 budget maintains its squeeze on domestic appropriations and obligation limitations for each of the five years that it includes. By 2008, the budget cuts domestic funding by \$14.9 billion (3.3 percent) below the amount needed to maintain purchasing power at the 2003 level. On the other hand, it increases defense funding steadily each year; by 2008, it provides \$34.3 billion (7.7 percent) above the amount needed to maintain purchasing power at the 2003 level. See *Function 050 (National Defense)* for more details.

President's Domestic Funding Cuts Purchasing Power Every Year



- Does Not Reflect Likely 2004 Total** — The budget's \$821.8 billion for appropriations and transportation obligation limitations does not reflect any defense funding for a potential war with Iraq. The Administration will make a supplemental 2003 or 2004 request if necessary, thus raising appropriations and increasing the deficit accordingly.

Harmful Cuts

Cuts to Education, Employment, and Training

- ***Cuts Funding for No Child Left Behind Act*** — The \$22.6 billion to fund programs under the No Child Left Behind Act (NCLB) in the President's budget is \$1.2 billion below the 2003 enacted level, \$1.4 billion below the amount needed to maintain purchasing power at the 2003 level, and more than \$9 billion below the amount authorized for 2004.
- ***Cuts Major Education Programs*** — The budget cuts many programs below the 2003 enacted level and even farther below the amount needed to maintain purchasing power at the 2003 level, including the following:
 - ***21st Century Community Learning Centers*** after-school program receives \$600 million, a cut of \$392 million from the 2003 enacted level and of \$411 million (40.7 percent) from the amount needed to maintain purchasing power at the 2003 level. It is \$1.2 billion below the level Congress authorized for 2004 in NCLB;
 - ***Teacher Quality Programs*** receive \$3.1 billion, a cut of \$268 million (7.9 percent) from the 2003 enacted level;
 - ***Education Technology*** programs receive \$722 million, a cut of \$53 million from the 2003 enacted level;
 - ***Impact Aid*** receives \$1.0 billion, a cut of \$173 million from the 2003 enacted level and of \$192 million (15.9 percent) from the amount needed to maintain purchasing power at the 2003 level;
 - ***Vocational Education*** receives \$1.0 billion for 2004, a cut of \$336 million (25.1 percent) from the 2003 enacted level;
 - ***Fund for the Improvement of Education*** receives \$35 million for 2004, a cut of \$284 million (89.0 percent) below the 2003 enacted level;
 - ***Safe and Drug-Free Schools*** receives \$694 million, a cut of \$22 million (3.0 percent) below the 2003 enacted level and of \$28 million below the amount needed to maintain purchasing power at the 2003 level; and
 - ***Perkins Loans*** receives \$68 million, a cut of \$99 million below the 2003 enacted level and of \$102 million (60.3 percent) from the amount needed to maintain purchasing power at the 2003 level.
- ***Eliminates 46 Education Programs*** — The President's 2004 budget eliminates 46 programs that receive a total of \$1.6 billion for 2003.
- ***Cuts Maximum Pell Grant*** — The budget cuts the maximum Pell Grant award by \$50 from the 2003 enacted level of \$4,050. It is the second straight year that the President has proposed keeping the maximum award at \$4000. This is in stark contrast to the last six years, in which Congress raised the maximum grant by totals ranging from \$50 up to \$450.
- ***Cuts Campus-Based Financial Assistance*** — The 2004 budget reduces campus-based aid by \$160 million (8.2 percent) below the amount required to maintain purchasing

power at the 2003 level and by \$127 million below the 2003 enacted level. It cuts Perkins loans to \$68 million, which is \$102 million (60.3 percent) below the amount needed to maintain purchasing power at the 2003 level.

- ***Slashes Direct Aid to Students*** — The budget eliminates four student aid programs. In addition, it cuts the program that provides child care for student-parents to \$15 million, which is 7.4 percent below the 2003 enacted level, and for the second year in a row freezes all other assistance for students at their 2002 enacted levels, thus undoing the increases enacted for 2003.
- ***Cuts Adult Training*** — The budget includes \$3.1 billion for a new block grant that combines three programs (adult training, dislocated workers, and the Employment Service state grants), a cut of \$60 million below the 2003 enacted level.

Cuts to Health

- ***Cuts Building and Facilities at CDC*** — The budget funds CDC buildings and facilities at \$114 million, a cut of \$158 million (58.1 percent) from the amount needed to maintain purchasing power at the 2003 level and a cut of \$152 million (57.2 percent) from the 2003 enacted level.
- ***Slashes Health Professions Training*** — Health Professions Training programs are funded at \$108 million in 2004, a \$321 million cut (74.8 percent) from the amount needed to maintain purchasing power at the 2003 level, and a \$313 million cut (74.4 percent) from the 2003 enacted level.
- ***Eliminates Community Access Program (CAP)*** — The budget eliminates the community access program, which received \$119 million for 2003. CAP funds grants to coordinate health care services to the under-insured and uninsured offered by community providers such as public hospitals, community health centers, and disproportionate share hospitals.
- ***Slashes Telehealth Activities*** — For 2004, the budget cuts telehealth activities 78.1 percent below the amount needed to maintain purchasing power at the 2003 level, providing funding of \$6 million. This funding level is a \$21 million cut (77.7 percent) below the 2003 enacted level.
- ***Slashes Rural Health Activities*** — The budget provides \$80 million for rural health activities, a \$52 million cut (39.2 percent) from the amount needed to maintain purchasing power at the 2003 level and a \$49 million decrease (38.2 percent) from the 2003 enacted level.
- ***Cuts Children's Hospital Graduate Medical Education (GME)*** — The budget funds pediatric GME at \$199 million, \$96 million (32.6 percent) below the amount needed to maintain purchasing power at the 2003 level and \$91 million (31.4 percent) below the

2003 enacted level. These funds are currently used by children's teaching hospitals to offset the higher costs of providing advanced training to pediatricians.

- ***Substance Abuse Prevention Activities*** — The budget funds substance abuse activities at \$148 million, a cut of \$53 million (26.2 percent) below the amount needed to maintain purchasing power at the 2003 level. This is a cut of \$49 million (24.9 percent) below the 2003 enacted level.

Cuts that Hurt Working Families

- ***Freezes Funding for Child Care*** — The budget once again freezes funding for the Child Care and Development Fund at the 2003 enacted level of \$4.8 billion, providing \$2.1 billion in appropriations for the Child Care and Development Block Grant, and \$2.7 billion for mandatory child care programs. The block grant funding in the budget represents a cut of \$21 million from the amount necessary to maintain purchasing power at the 2003 level. The budget freezes mandatory funding at the 2002 enacted level through 2008, further eroding purchasing power each year. The budget projects the number of children served by these programs will decline from 2.5 million in 2003 to 2.3 million in 2008.
- ***Eliminates Funding for Rehabilitation of Distressed Public Housing*** — The budget does not renew the HOPE VI program, which provides funding for rehabilitation and demolition of housing units identified as severely distressed. This program was funded at \$570 million in 2003; the budget provides no funding for 2004.
- ***Converts Section 8 Tenant-based Housing Assistance to a Block Grant*** — The budget converts Section 8 housing vouchers for low-income renters into a block grant program administered by states called "Housing Assistance for Needy Families," with 2004 serving as a transition year. The policy of converting tenant-based vouchers to a block grant structure provides less funding for this program in future years than is assumed in projections of current law. For example, the budget includes \$18.6 billion for Section 8 programs in 2008, whereas CBO projects that \$22.0 billion will be needed in that year to maintain purchasing power at the 2003 enacted level and provide full funding to renew all expiring contracts.
- ***Erodes Public Housing Operating Fund*** — The budget provides \$3.6 billion to pay local public housing authorities for operating costs not covered by rental income. This represents a freeze at the 2003 enacted level and is \$64 million below the amount needed to maintain purchasing power at the 2003 level. This cut is further exacerbated by a \$250 million shortfall in 2002, caused by a HUD estimating error, that carried over into 2003. The budget does not include funding to address the 2002 shortfall.
- ***Cuts Funding for Critical Repairs to Public Housing*** — The budget includes \$2.6 billion for the public housing capital fund, which is a cut of \$71 million below the 2003 enacted level and \$117 million below the amount needed to maintain purchasing power at the 2003 level.

- ***Zeroes out Rural Housing and Economic Development*** — The budget eliminates this \$25 million program, which encourages new and innovative approaches to serve the housing and economic development needs of rural populations through grants to local community-based organizations.

Cuts that Weaken Our Communities

- ***Community Oriented Policing Services (COPS) Cuts*** — The Community Oriented Policing Services provides grants and other assistance to help communities hire, train, and retain police officers and improve law enforcement technologies. The budget slashes the COPS program, providing only \$158 million, a \$765 million (82.9 percent) cut below the 2003 enacted level, and a \$781 million cut (83.2 percent) cut below the amount needed to maintain purchasing power at the 2003 level.
- ***State and Local Criminal Justice and Juvenile Justice Eliminations and Cuts*** — State and local criminal justice and juvenile justice assistance programs center on combating and deterring crime. The budget eliminates most of these programs, while slightly increasing funding for federal law enforcement and directing resources to state and local terrorism preparedness initiatives under the Homeland Security Department. The eliminations include the following: Edward Byrne formula and discretionary grants; Violence Against Women Act programs; the State Criminal Alien Assistance Program; the Juvenile Justice Incentive Block Grant program; and Local Law Enforcement Block Grants. These programs would require approximately \$2.1 billion in 2004 to maintain purchasing power at the 2003 level.
- ***Community Development Block Grant (CDBG) Program Cut*** — Community Development Block Grants provide funds for programs and activities that promote economic development in low- and moderate-income communities. The President's budget provides \$4.7 billion for CDBGs, a \$173 million (3.5 percent) cut below the 2003 enacted level, and a \$256 million (5.1 percent) cut below the amount needed to maintain purchasing power at the 2003 level.
- ***Community Development Financial Institutions (CDFI) Fund Cut*** — The CDFI program provides grants, loans, and other assistance to promote investment in economically distressed areas. The budget provides \$51 million for CDFI, a \$25 million (32.9 percent) cut below the amount needed to maintain purchasing power at the 2003 level.
- ***Appalachian Regional Commission Cut*** — The Appalachian Regional Commission aids economic development in the Appalachian region. The budget provides \$33 million for the Appalachian Regional Commission, a \$39 million (54.2 percent) cut below the amount needed to maintain purchasing power at the 2003 level.

- ***Rural Community Advancement Cut*** — The Rural Community Advancement (RCA) program provides grants, loans, and loan guarantees to stimulate economic growth and build facilities in rural communities. The budget provides \$478 million for the Rural Community Advancement program, a \$439 million (47.9 percent) cut below the amount needed to maintain purchasing power at the 2003 level.
- ***Empowerment Zones Eliminated*** — Empowerment Zones target funds to revitalize economically distressed urban and rural communities and attract private investment in those communities. The budget eliminates urban and rural empowerment zones. To maintain purchasing power at the 2003 level, urban empowerment zones would require \$31 million and rural empowerment zones would require \$15 million.
- ***Brownfields Redevelopment Program Eliminated*** — The Brownfields Redevelopment Program provides competitive economic development grants under the Department of Housing and Urban Development for brownfield projects. The budget eliminates funding for the program, which would require \$25 million to be funded at the 2003 level.

Cuts to Infrastructure and Energy

- ***Highway Funding Cut*** - The President's budget provides 2004 federal-aid highway funding of \$29.3 billion, a cut of \$2.3 billion (7.3 percent) from the 2003 enacted level of \$31.6 billion. This \$2.3 billion cut for 2004 follows the highly controversial \$8.6 billion cut the President initially proposed last year. For 2003, Congress rejected the President's large cut and would have matched the previous year's funding level of \$31.8 billion, if not for the across-the-board cut in the omnibus appropriations act. Cuts to federal highway aid will only exacerbate the already severe fiscal difficulties that states are facing.
- ***Drastic Cut to Aid for Wastewater Infrastructure*** - For 2004, the President's budget dramatically cuts the Clean Water State Revolving Fund (SRF) Program, which provides seed money to state revolving loan funds (SRFs). These SRFs in turn loan money for improvements to wastewater treatment facilities. The budget provides \$850 million, \$514 million (36.8 percent) below the level needed to maintain purchasing power at the 2003 level.
- ***Rural Utilities*** — The budget provides \$19 million in appropriated funding for rural electrification loans, rural telephone loans, and the Rural Telephone Bank. This represents a cut of \$12 million (38.7 percent) from the amount needed to maintain purchasing power at the 2003 level. The Rural Utilities Service at the U.S. Department of Agriculture administers this funding to establish, expand, and modernize vital infrastructure for rural America.
- ***Fossil Energy Research and Development*** — The budget provides \$519 million for fossil energy R&D, a decrease of \$114 million (18.0 percent) from the amount needed to maintain purchasing power at the 2003 level.

The Budget By Function

The following three tables show the President's budget broken down by budget function, which correspond with the major areas of federal government activity. The first table shows total spending (appropriated and mandatory) for each budget function. The second table shows the budget for appropriated (or "discretionary") spending, which is spending controlled by the annual appropriations process. The third table shows the budget for mandatory spending, which is spending provided for through authorizing legislation. Mandatory spending includes entitlement programs such as Medicare, Medicaid, and Social Security, as well as interest payments on the federal debt. Figures may not add due to rounding.

BUSH 2004 BUDGET AS ESTIMATED BY OMB
TOTAL BUDGET
(In billions of dollars)

	2004	2005	2006	2007	2008	5 Yr. Total
Total Budget						
Budget Authority	2,243.0	2,363.3	2,496.2	2,621.6	2,753.3	12,477.5
Outlays	2,229.4	2,343.4	2,463.7	2,576.2	2,710.5	12,323.2
Non-defense						
Budget Authority	1,843.3	1,943.3	2,056.1	2,161.3	2,272.6	10,276.7
Outlays	1,839.0	1,933.3	2,040.5	2,139.8	2,250.0	10,202.5
050 National Defense						
Budget authority	399.7	420.0	440.0	460.3	480.7	2,200.8
Outlays	390.4	410.1	423.2	436.4	460.5	2,120.7
150 International Affairs						
Budget authority	23.8	28.0	30.6	32.1	33.3	147.9
Outlays	25.6	26.1	27.5	29.2	30.7	139.0
250 General Science, Space						
Budget authority	23.5	24.3	25.1	26.0	26.7	125.6
Outlays	22.9	23.8	24.7	25.4	26.2	123.1
270 Energy						
Budget authority	0.9	1.7	1.8	1.3	2.2	7.8
Outlays	0.9	1.5	1.8	1.2	1.8	7.2
300 Natural Resources and Environment						
Budget authority	30.4	31.4	32.1	32.8	33.5	160.2
Outlays	31.6	31.8	32.5	32.8	33.5	162.2
350 Agriculture						
Budget authority	21.1	24.3	23.9	23.0	21.5	113.8
Outlays	20.8	24.2	23.9	23.1	21.5	113.5
370 Commerce and Housing Credit						
Budget authority	9.6	9.5	9.6	11.6	11.3	51.5
Outlays	-0.7	-2.0	0.2	1.6	1.4	0.5
400 Transportation						
Budget authority	63.8	65.1	66.8	68.4	70.0	334.2
Outlays	63.4	64.3	65.1	66.8	68.9	328.6
450 Community and Regional Development						
Budget authority	13.6	13.9	14.2	14.5	14.9	71.1
Outlays	17.1	16.4	14.2	14.2	14.6	76.4
500 Education and Training						
Budget authority	86.0	86.1	87.5	89.3	91.5	440.4
Outlays	85.3	84.5	85.9	87.5	89.4	432.6
550 Health						
Budget authority	247.3	267.9	292.0	313.2	336.2	1,456.5
Outlays	246.6	267.0	291.2	311.7	334.7	1,451.1
570 Medicare						
Budget authority	258.6	275.9	305.3	327.2	349.4	1,516.4
Outlays	258.9	275.9	304.9	327.4	349.4	1,516.4
600 Income Security						
Budget authority	322.9	337.7	346.2	354.0	369.9	1,730.6
Outlays	325.0	340.9	349.4	356.7	369.1	1,741.1
650 Social Security						
Budget authority	498.8	517.5	539.7	565.9	594.6	2,716.5
Outlays	497.3	516.0	537.6	563.2	591.8	2,705.9
700 Veterans						
Budget authority	61.6	64.8	66.9	69.0	71.3	333.5
Outlays	62.0	67.0	66.6	65.9	70.9	332.5
750 Administration of Justice						
Budget authority	38.8	37.0	37.7	38.5	39.4	191.4
Outlays	39.4	38.9	39.5	37.9	38.7	194.4
800 General Government						
Budget authority	20.2	22.1	20.7	21.2	21.6	105.8
Outlays	20.5	22.0	20.5	21.0	21.5	105.5
900 Net Interest						
Budget authority	176.4	204.0	224.5	239.8	254.1	1,098.9
Outlays	176.4	204.0	224.5	239.8	254.1	1,098.9
920 Allowances						
Budget authority	-0.3	-0.3	-0.3	-0.3	-0.3	-1.5
Outlays	-0.3	-1.3	-1.1	0.2	0.3	-2.3
950 Undistributed Offsetting Receipts						
Budget authority	-53.7	-67.6	-68.3	-66.0	-68.5	-324.1
Outlays	-53.7	-67.6	-68.3	-66.0	-68.5	-324.1

**BUSH 2004 BUDGET AS ESTIMATED BY OMB
DISCRETIONARY PROGRAMS ONLY
(In billions of dollars)**

	2004	2005	2006	2007	2008 5 Yr. Total	
Total Discretionary						
Budget Authority	782.2	813.5	842.3	872.4	903.6	4,214.1
Outlays	818.8	850.0	869.8	891.4	925.9	4,355.9
Non-defense discretionary						
Budget Authority	383.0	393.9	402.6	412.4	423.2	2,015.1
Outlays	429.0	440.3	447.0	455.2	465.7	2,237.3
Domestic Discretionary						
Budget Authority	352.9	362.3	369.4	377.9	387.7	1,850.1
Outlays	370.3	380.0	384.3	390.0	398.2	1,922.8
050 National Defense						
Budget authority	399.2	419.6	439.7	460.0	480.4	2,199.0
Outlays	389.7	409.7	422.8	436.2	460.2	2,118.6
150 International Affairs						
Budget authority	28.6	30.0	31.5	32.8	33.8	156.6
Outlays	28.1	28.3	29.8	31.3	32.6	150.0
250 General Science, Space						
Budget authority	23.5	24.3	25.1	25.9	26.7	125.5
Outlays	22.7	23.7	24.7	25.4	26.2	122.7
270 Energy						
Budget authority	3.6	4.0	3.9	3.9	4.9	20.2
Outlays	3.6	3.8	4.0	3.9	4.6	20.0
300 Natural Resources and Environment						
Budget authority	28.0	28.5	29.1	29.7	30.5	145.7
Outlays	29.5	29.5	29.6	29.9	30.6	149.0
350 Agriculture						
Budget authority	5.4	5.6	5.7	5.8	6.0	28.5
Outlays	5.7	5.5	5.7	5.8	5.9	28.6
370 Commerce and Housing Credit						
Budget authority	-1.0	-0.6	-0.5	0.7	0.9	-0.4
Outlays	-0.7	-0.6	-0.6	0.6	0.8	-0.6
400 Transportation						
Budget authority	22.3	22.6	23.0	23.5	24.0	115.4
Outlays	61.4	62.2	63.0	64.8	66.8	318.3
450 Community and Regional Development						
Budget authority	13.9	14.2	14.5	14.8	15.3	72.6
Outlays	17.5	16.8	14.8	14.8	15.2	79.1
500 Education and Training						
Budget authority	75.2	76.6	78.2	80.0	82.0	392.1
Outlays	72.8	75.5	77.0	78.7	80.5	384.5
550 Health						
Budget authority	49.6	50.7	51.8	52.9	54.3	259.3
Outlays	48.2	49.8	51.0	52.0	53.2	254.3
570 Medicare						
Budget authority	3.7	3.8	3.9	4.0	4.1	19.5
Outlays	3.7	3.8	3.8	3.9	4.0	19.2
600 Income Security						
Budget authority	46.2	47.1	48.0	48.2	48.5	237.9
Outlays	51.2	53.0	54.3	54.4	53.7	266.5
650 Social Security						
Budget authority	4.3	4.4	4.5	4.5	4.7	22.3
Outlays	4.3	4.4	4.4	4.5	4.7	22.3
700 Veterans						
Budget authority	28.2	28.6	29.1	29.5	30.1	145.5
Outlays	27.9	28.5	28.9	29.4	30.0	144.6
750 Administration of Justice						
Budget authority	34.1	36.3	37.2	38.0	39.1	184.8
Outlays	35.6	38.2	39.1	37.9	38.8	189.6
800 General Government						
Budget authority	17.8	18.2	18.0	18.4	18.8	91.1
Outlays	17.9	18.1	17.9	18.2	18.6	90.6
900 Net Interest						
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0
920 Allowances						
Budget authority	-0.3	-0.3	-0.3	-0.3	-0.3	-1.5
Outlays	-0.3	-0.3	-0.3	-0.3	-0.3	-1.5
950 Undistributed Offsetting Receipts						
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0

**BUSH 2004 BUDGET AS ESTIMATED BY OMB
MANDATORY AND OFFSETTING RECEIPTS TOTALS
(In billions of dollars)**

	2004	2005	2006	2007	2008	5 Yr. Total
Total Mandatory						
Budget Authority	1,460.8	1,549.8	1,653.9	1,749.2	1,849.7	8,263.4
Outlays	1,410.6	1,493.4	1,593.9	1,684.8	1,784.6	7,967.3
Non-defense						
Budget Authority	1,460.3	1,549.4	1,653.6	1,748.9	1,849.4	8,261.6
Outlays	1,410.0	1,493.0	1,593.5	1,684.5	1,784.2	7,965.3
050 National Defense						
Budget authority	0.5	0.4	0.3	0.3	0.3	1.8
Outlays	0.7	0.4	0.4	0.3	0.4	2.0
150 International Affairs						
Budget authority	-4.8	-1.9	-0.9	-0.7	-0.5	-8.7
Outlays	-2.4	-2.2	-2.3	-2.1	-1.9	-11.0
250 General Science, Space						
Budget authority	0.0	0.0	0.0	0.0	0.0	0.2
Outlays	0.1	0.1	0.1	0.0	0.0	0.3
270 Energy						
Budget authority	-2.7	-2.3	-2.2	-2.6	-2.7	-12.4
Outlays	-2.7	-2.4	-2.2	-2.7	-2.8	-12.8
300 Natural Resources and Environment						
Budget authority	2.4	3.0	3.0	3.1	3.1	14.6
Outlays	2.1	2.3	2.9	2.9	2.9	13.2
350 Agriculture						
Budget authority	15.8	18.7	18.2	17.1	15.5	85.3
Outlays	15.1	18.7	18.3	17.3	15.6	84.9
370 Commerce and Housing Credit						
Budget authority	10.6	10.1	10.0	10.8	10.4	51.9
Outlays	0.0	-1.3	0.8	0.9	0.6	1.0
400 Transportation						
Budget authority	41.6	42.5	43.8	44.9	46.0	218.7
Outlays	2.0	2.1	2.1	2.0	2.0	10.3
450 Community and Regional Development						
Budget authority	-0.3	-0.3	-0.3	-0.3	-0.4	-1.6
Outlays	-0.4	-0.5	-0.6	-0.6	-0.6	-2.7
500 Education and Training						
Budget authority	10.8	9.5	9.3	9.3	9.5	48.3
Outlays	12.6	9.0	8.9	8.8	8.9	48.1
550 Health						
Budget authority	197.7	217.2	240.3	260.3	281.9	1,197.3
Outlays	198.4	217.1	240.2	259.7	281.5	1,196.8
570 Medicare						
Budget authority	254.9	272.1	301.4	323.2	345.3	1,496.9
Outlays	255.2	272.1	301.1	323.5	345.4	1,497.2
600 Income Security						
Budget authority	276.7	290.6	298.2	305.8	321.4	1,492.7
Outlays	273.7	287.9	295.1	302.3	315.5	1,474.6
650 Social Security						
Budget authority	494.6	513.1	535.3	561.3	589.9	2,694.2
Outlays	493.0	511.6	533.1	558.7	587.2	2,683.6
700 Veterans						
Budget authority	33.4	36.1	37.8	39.5	41.2	188.0
Outlays	34.1	38.5	37.7	36.5	41.0	187.9
750 Administration of Justice						
Budget authority	4.6	0.7	0.6	0.5	0.3	6.7
Outlays	3.8	0.7	0.3	0.1	-0.1	4.8
800 General Government						
Budget authority	2.4	3.9	2.7	2.8	2.8	14.7
Outlays	2.6	3.9	2.7	2.8	2.9	14.9
900 Net Interest						
Budget authority	176.4	204.0	224.5	239.8	254.1	1,098.9
Outlays	176.4	204.0	224.5	239.8	254.1	1,098.9
920 Allowances						
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	-1.1	-0.9	0.5	0.6	-0.8
950 Undistributed Offsetting Receipts						
Budget authority	-53.7	-67.6	-68.3	-66.0	-68.5	-324.1
Outlays	-53.7	-67.6	-68.3	-66.0	-68.5	-324.1

Function 050: National Defense

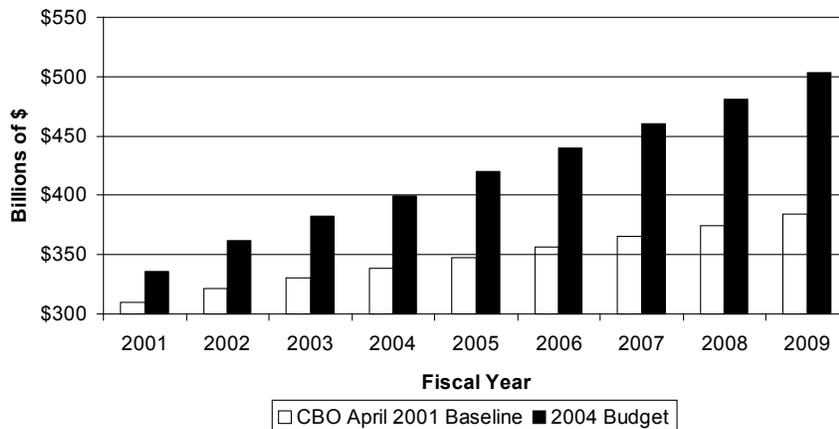
The National Defense function includes the military activities of the Department of Defense (DOD), the nuclear-weapons related activities of the Department of Energy (DOE) and the National Nuclear Security Administration (NNSA), the national security activities of several other agencies such as the Selective Service Agency, and portions of the activities of the Coast Guard and the Federal Bureau of Investigation. The programs in this function include: the pay and benefits of active, Guard and reserve military personnel; DOD operations including training, maintenance of equipment and facilities; health care for military personnel and dependents; procurement of weapons; research and development; construction of military facilities, including housing; research on nuclear weapons; and the cleanup of nuclear weapons production facilities.

The President's budget includes \$399.2 billion for all national defense appropriated activities, including \$379.9 billion for DOD, \$16.9 billion for the nuclear weapons-related activities of DOE, and \$2.4 billion for miscellaneous national security activities in other agencies such as the Federal Bureau of Investigation and the Coast Guard functions of the Department of Homeland Security.¹

- ***Increased Funding for National Defense*** – Including the impact of the \$10 billion added for defense in the 2003 Omnibus Appropriations bill, the budget request is \$7.0 billion, or 1.8 percent, above the 2003 enacted level, but \$2.8 billion, or 0.7 percent, below the level needed to maintain 2003 purchasing power. The budget increases funding for national defense by \$81.7 billion, or 3.9 percent, above the amounts needed to maintain purchasing power at the 2003 appropriated level over the next five years.
- ***Long-Term Defense Increase is Significant*** – The increases described above are only a portion of the actual and planned surge in defense spending since the beginning of the Bush Administration. The current Bush Administration defense budget plan, which extends through 2009, exceeds the CBO baseline released in April 2001 (at the same time President Bush presented his initial budget request) by \$655 billion over the nine-year period from 2001 through 2009. The chart on the next page shows the increase in planned defense budgets from the \$300 billion level (the total for national defense in 2000 was \$304.1 billion) to the \$399.7 billion requested for 2004 and the \$503.0 billion planned for 2009. Part of this increase to date is attributable to the response to the attacks of September 11, 2001, and the subsequent war on terrorism (Operation Enduring Freedom); however, as explained below, the Administration's budget plans do not include any future incremental costs of the war on terrorism, or the potential costs of a conflict with Iraq.

¹ This funding reflects the amount requested in the President's budget, not CBO's March re-estimate of the budget.

National Defense Budget Authority 2004 Budget Request Compared with CBO April 2001 Baseline



- ***No Reserve Fund for Potential War with Iraq*** – The President’s budget includes no funding for a potential war against Iraq. Supplemental funding that would further increase the deficit would be required to pay for any military operations in Iraq. Such costs could be significant. Last September, the President’s then-chief economic adviser, Lawrence Lindsey, was reported as estimating the cost of an attack on Iraq at \$100 to \$200 billion. That same month, CBO estimated the cost of a war at \$6 to \$9 billion a month, in addition to the costs of deploying forces to the region and bringing them back.

An analysis by the Democratic staff of the House Budget Committee estimated the direct military costs of a war with Iraq at \$30 to \$60 billion. When other indirect costs such as the costs of a post-conflict occupation force, foreign assistance to allies in the region, interest costs, and the potential impact on the economy are included, the staff analysis concluded that \$100 to \$200 billion was a reasonable estimate of the potential costs of such a conflict.

- ***No Funding for Incremental Costs of the War on Terrorism*** – The President’s budget includes no funding for the incremental costs of ongoing overseas operations in the

global war against terrorism. Such costs include higher operating tempos and the activation of Guard and reserve units. Congress did not approve the Administration's request in the 2003 budget for \$10.0 billion in unrestricted funds for such purposes. DOD is currently borrowing \$1.5 billion a month from its operations and personnel accounts to pay for the costs of these operations in 2003. Secretary of Defense Rumsfeld has testified that a supplemental appropriation for 2003 will be required for these costs, and for the costs already incurred in deploying forces to Southwest Asia in preparation for potential operations in Iraq. Additional supplemental funding that would further increase the deficit would be required to pay for continuing the war on terrorism in 2004.

The Department of Defense

- ***Increase for the Department of Defense (DOD)*** — The budget increases funding for DOD by \$5.3 billion, or 1.4 percent, above the enacted 2003 amount (including the \$10 billion added for defense and intelligence programs in the 2003 Omnibus Appropriations bill). Over five years, the budget increases funding for DOD by \$77.8 billion, or 3.8 percent, above the amount needed to maintain purchasing power at the 2003 enacted level.
- ***No Major Changes in Direction*** – The budget makes no major changes in the size or composition of the military force structure (ground divisions, ships, or aircraft) and does not cancel any major new weapons systems. It does accelerate the retirement of some existing systems.

Nominal Programmatic Increase for DOD (Budget Authority in Billions of Dollars)

2003 Level	374.6
<u>2004 Budget</u>	<u>379.9</u>
Nominal Increase	5.3

As the table indicates, the nominal DOD programmatic increase over the 2003 enacted level is \$5.3 billion (1.4 percent). It is \$4.3 billion (1.1 percent) below the amount needed to maintain purchasing power at the 2003 level.

- ***Military Pay and Benefits*** — The budget includes targeted raises in basic military pay that range from 2.0 percent to 6.3 percent, depending on rank and years of service. These raises reportedly average around 4.1 percent. Only newly enlisted personnel would receive the lowest pay raise of 2.0 percent.

The budget also includes funding to continue an initiative begun by the Clinton Administration to gradually eliminate all “out-of-pocket” housing costs for military personnel living off-base by 2005 through increases to the basic allowance for housing (BAH). The budget increases BAH so that out-of-pocket expenses will be lowered from 7.5 percent in 2003 to 3.5 percent in 2004.

The budget combines the accounts used for the pay and benefits of active, reserve, and National Guard military personnel into a single account for each military service, to provide increased flexibility when large numbers of Guard and reserve personnel are being called to active duty, as is the case in 2003.

- ***Military Personnel Strengths*** — The budget contains no significant changes in active duty, National Guard, or reserve personnel strengths, nor does it include funds for continuing the increased activation of Guard or reserve personnel to support the global war on terrorism in 2004. Increases in the military personnel budget therefore reflect increases in pay and benefits, not additional personnel levels.

**The DOD Budget by Title:
Comparisons with the 2003 Level and
the Level Needed to Maintain Purchasing Power
(Budget Authority in Billions of Dollars)**

	2004 Budget	Enacted 2003	Dollar Change	Percent Change	Inflation- Adjusted 2003	Dollar Change	Percent Change
O&M	133.2	134.5	-1.3	-1.0	138.0	-4.8	-3.5
Procurement	74.4	73.9	0.5	0.7	75.2	-0.8	-1.0
RDT&E	61.8	57.5	4.3	7.5	58.6	3.2	5.5
Mil Construction	5.0	6.3	-1.3	-20.9	6.5	-1.4	-22.4
Family Housing	4.0	4.2	-0.2	-4.5	4.3	-0.3	-6.2

Numbers may not add exactly due to rounding.

- ***Department of Defense by Title*** — The table compares the President’s request with both the 2003 enacted level (including the \$10 billion added in the Omnibus Appropriations bill) and the level that CBO estimates is needed to maintain purchasing power at the 2003

level (the “Inflation-Adjusted” column).² Funding for every major title of the DOD budget except Research and Development (RDT&E) is below the level needed to maintain purchasing power at the 2003 level.

The DOD budget proposes to move \$17.9 billion in programs, including the Defense Health Program and the Chemical Agents and Munitions Destruction account, from their traditional funding titles, such as O&M and Procurement, to a new “Other” category. For comparability with previous years, the table above reflects the existing structure, as does the President’s budget and other OMB documents. However, DOD documents reflect the new proposed structure and will not agree with this table.

- ***Operations and Maintenance (O&M)*** — The O&M accounts are critical to readiness because they fund training, military exercises and operations, spare parts, fuel, and all the other items a military force needs to operate its forces and installations. As the table indicates, the O&M budget is \$1.3 billion, or 1.0 percent, below the 2003 enacted level, and \$4.8 billion, or 3.5 percent, below the level needed to maintain purchasing power at the 2003 level. This calls into question whether the budget can maintain the readiness of our forces in 2004 if the high pace of operations in 2003 continues.

In the event of military operations in Iraq, DOD would need to use these O&M funds for other purposes unless and until supplemental funding is provided, diverting resources from the normal O&M activities included in the budget.

- ***Procurement*** — The budget includes \$74.4 billion for procurement of weapons systems and military equipment including aircraft, ships, vehicles, and satellites. This level is \$0.5 billion (0.7 percent) more than the 2003 enacted level, and is \$0.8 billion (1.0 percent) below the amount needed to maintain purchasing power at the enacted level. Of the \$77.8 billion in real growth in DOD spending over the five-year period, 62 percent (\$48.5 billion) is in the procurement accounts. The most significant increases from the 2003 enacted level are for shipbuilding (up \$2.4 billion, or 26.1 percent) and equipment for Special Operations Forces (up \$1.1 billion, or 129.4 percent). The largest decrease is for the C-17 aircraft, which is \$774 million, or 18.1 percent, below the 2003 enacted level.
- ***Research and Development*** — The budget includes \$61.8 billion for 2004 for research, development, test, and evaluation programs (RDT&E). This level is \$4.3 billion (7.5 percent) more than the 2003 enacted level, and \$3.2 billion (5.5 percent) more than needed to maintain purchasing power at the 2003 level.

² Military personnel is excluded from the table because of anomalies that occur when trying to adjust for inflation in those accounts.

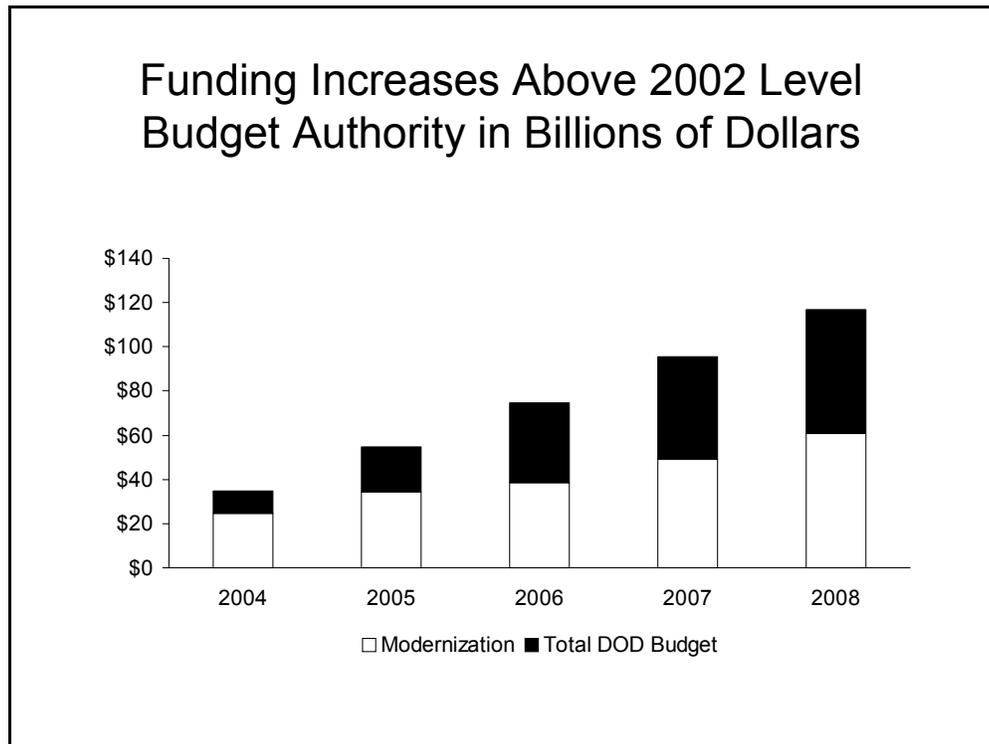
- ***Military Construction and Family Housing*** — These accounts fund the facilities where military personnel work and live. The 2004 funding level of \$5.0 billion for construction of new facilities in the budget is \$1.3 billion (20.9 percent) below the 2003 enacted level. The budget then doubles this 2004 funding level to \$10.4 billion in 2006, after completion of the 2005 base closure round, with additional increases in later years.

Selected Program Highlights

- ***Ballistic Missile Defense*** — The budget includes \$9.1 billion in funding within the RDT&E and procurement accounts for ballistic missile defense (BMD) programs, an increase of \$1.5 billion, or 19.7 percent, above the 2003 enacted level. The Administration proposes to field a limited missile defense system over the next two years, beginning with a deployment of 10 land-based interceptors in 2004 to defend against potential missile attacks from North Korea. The budget includes proposed legislation that would exempt this program from operational testing requirements and other statutes governing major defense acquisition programs.
- ***Reduced Funding for Homeland Security*** – OMB estimates that the DOD budget includes \$6.7 billion for homeland security activities, including force protection measures at military installations and combat air patrols over the United States. This represents a decrease of \$2.1 billion (23.6 percent) from the 2003 enacted level of \$8.9 billion. The Administration states that this decrease is the result of one-time force protection investments that were made in 2003 and will not be repeated in 2004. Much of DOD’s homeland security funding is for protecting DOD forces and installations.
- ***Science and Technology R&D*** – Science and technology (S&T) programs represent investment in the future technologies needed to keep our military capability second to none. Both the Administration and Congress have embraced the goal of devoting 3.0 percent of DOD resources to S&T programs. However, for the third straight year, the Administration’s budget increases overall R&D funding levels while funding S&T programs below the previous year’s enacted level, and below the 3.0 percent goal. The budget funds S&T programs at \$10.2 billion for 2004, a decrease of \$541 million from the 2003 enacted level (or 2.95 percent of the DOD topline). This would reduce the share of DOD funding devoted to S&T programs to 2.7 percent.
- ***Training and Equipping Foreign Military Forces*** – The DOD budget includes \$200 million to train and equip the military forces of cooperating nations in the war on terrorism.
- ***Personnel Management*** – Secretary of Defense Rumsfeld has stated that DOD is considering a proposal to “establish a National Security Personnel System that will give

the Department of Defense greater flexibility in how it handles and manages its civilian personnel”.³ This proposal was not included in the budget submission.

- ***Transformation and Modernization of Military Capabilities*** – Since the late 1990s both DOD and Congress have stressed the importance of transforming the military to address



future threats. Transformation is mainly funded in the RDT&E and procurement accounts (collectively referred to as the modernization accounts) used to develop and procure new systems. The Bush Administration’s initial defense budget request for 2002 preceded the completion of their strategy review (the Quadrennial Defense Review released in September 2001) and did not fully reflect their emphasis on transformation. As the chart above shows, the increased funding in this five-year budget plan for modernization and transformation, over and above that 2002 level, is made possible by the increases in the overall DOD budget, allowing DOD to pursue transformation without having to make major reductions in other programs.

- ***DOD Nonproliferation*** — The bulk of U.S. nonproliferation funding is within DOE, but the DOD budget includes the Cooperative Threat Reduction program. This program is

³ Testimony to the House Armed Services Committee, February 5, 2003.

often called the Nunn-Lugar program, after the primary legislative sponsors of it, former Sen. Sam Nunn and Sen. Richard Lugar. The Nunn-Lugar program focuses on the dismantlement of nuclear missiles and chemical weapons. The budget includes \$451 million for the Nunn-Lugar program, which is \$37 million more than the 2003 enacted level.

Atomic Energy Defense Activities

The budget provides \$16.9 billion for the nuclear weapons-related activities of DOE and other agencies. This is \$1.1 billion, or 6.9 percent, more than the 2003 enacted level. It is \$797 million, or 5.0 percent, above the amount needed to maintain purchasing power at the 2003 level.

- ***Nuclear Nonproliferation Programs*** — DOE oversees several important programs to stop the spread of nuclear materials to terrorist groups and nations that are hostile to the United States. Most of these programs are focused on Russia and other states of the former Soviet Union. The budget provides \$1.3 billion for these programs for 2004, which is \$319 million, or 31.2 percent, more than the 2003 enacted level. This is \$302 million, or 29.1 percent, above the amount needed to maintain purchasing power at the 2003 level.
- ***Weapons Activities/Stockpile Stewardship*** — This program maintains the safety and reliability of nuclear weapons in the absence of underground tests. Stockpile stewardship relies on computer modeling, surveillance of weapons, and experiments that do not produce nuclear yields. The budget provides \$6.4 billion for the stockpile stewardship program, which is \$463 million, or 7.8 percent, more than the 2003 enacted level. This is \$361 million, or 6.0 percent, above the amount needed to maintain purchasing power at the 2003 level.
- ***Cleanup of Former Weapons Production Sites*** — The budget provides \$6.8 billion in the accounts dedicated to environmental activities, primarily the cleanup of nuclear and other hazardous waste, at DOE's weapons production sites. This is \$93 million, or 1.4 percent, more than the 2003 enacted level. However, it is \$29 million, or 0.4 percent, below the amount needed to maintain purchasing power at the 2003 level.

Function 150: International Affairs

Function 150 contains funding for all U.S. international activities, including: operating U.S. embassies and consulates throughout the world; providing military assistance to allies; aiding developing nations; dispensing economic assistance to fledgling democracies; promoting U.S. exports abroad; making U.S. payments to international organizations; and contributing to international peacekeeping efforts. Funding for all of these activities constitutes about one percent of the federal budget.

Overall, the President's budget provides \$28.6 billion in funding for appropriated international affairs programs.⁴ This amount is \$2.7 billion more than the amount needed to maintain purchasing power at the 2003 level. The budget provides \$3.2 billion more than the 2003 enacted level. Of that increase, \$1.3 billion funds the Administration's proposed Millennium Challenge Account initiative (see below).

International Security Assistance

- ***Foreign Military Financing (FMF)***
— The FMF program provides grants to help U.S. allies acquire military articles, services, and training from the United States. The budget provides \$4.4 billion in funding for FMF, which is \$394 million more than the amount needed to maintain purchasing power at the 2003 level and \$461 million more than the 2003 enacted level.

Budget Omits International Affairs Costs Associated with Possible War with Iraq —

The budget does not include the humanitarian and reconstruction costs that could arise from a possible war with Iraq. Press reports suggest the possibility of additional foreign assistance to states such as Turkey, Jordan, and Israel in connection with a possible war with Iraq. The budget does not contain additional funding for such

As in previous years, the top three recipients of FMF financing are Israel, Egypt, and Jordan. In 1998, Israel and the United States reached an agreement to increase FMF assistance to Israel by \$60 million per year for 10 years and to decrease Economic Support Fund aid (see below) by \$120 million per year for 10 years. The budget maintains the funding glide path envisioned in the 1998 agreement, providing \$2.16 billion for FMF assistance for Israel for 2004. The budget includes \$1.3 billion in FMF funding for Egypt, which has been the typical level of FMF assistance for Egypt since 1986. Jordan receives \$206 million FMF funding, \$8 million more than the Administration requested for 2003.

⁴This funding reflects the amount requested in the President's budget, not CBO's re-estimate of the President's budget.

The budget provides FMF funding for a number of other “front-line states” in the war on terrorism, including \$150 million for Afghanistan, \$75 million for Pakistan, and \$50 million for Turkey.

- ***Economic Support Fund (ESF)*** — The ESF program provides bilateral economic assistance to countries of particular importance to U.S. foreign policy. The budget provides \$2.5 billion for ESF activities for 2004. This is \$216 million more than the amount needed to maintain purchasing power at the 2003 level, and \$255 million more than the 2003 enacted level.

The budget maintains the funding glide path envisioned in the 1998 agreement between Israel and the United States discussed above, providing \$480 million for ESF assistance for Israel for 2004. In a separate agreement reached by Egypt and the United States in 1998, ESF assistance to Egypt was scheduled to decrease by \$40 million per year. The budget continues the glide path envisioned in this agreement, including \$575 million in ESF funding for Egypt for 2004.

The budget provides ESF funding for other “front-line states” in the war on terrorism, including \$250 million for Jordan, \$200 million for Pakistan, \$200 million for Turkey, and \$150 million for Afghanistan. The budget also provides \$145 million of ESF funding for the Middle East Partnership Initiative, which is designed to encourage structural reforms in the region. This initiative will fund programs that, among other things, expand economic and educational opportunities and support democratic reforms and the rule of law.

- ***Non-Proliferation, Anti-Terrorism, Demining, and Related Programs (NADR)*** — The budget provides \$385 million for NADR programs, which, among other things, provide anti-terrorism training to foreign governments and work to reduce the dangers posed by nuclear material. This is \$76 million more than the amount needed to maintain purchasing power at the 2003 level and \$81 million more than the 2003 enacted level. The 2004 budget for NADR programs does not include funding for the Korean Peninsula Development Organization (KEDO), reflecting the November 2002 decision by KEDO to suspend shipments of heavy oil to North Korea.

State Department

- ***Diplomatic and Consular Programs*** — The budget provides \$4.2 billion for the operations of most diplomatic and consular programs, including the support of our embassies and much of the State Department. This is \$263 million more than the amount needed to maintain purchasing power at the 2003 level, and \$371 million more than the 2003 enacted level. The budget includes funding to hire 399 new Foreign Service and Civil Service staff in the final year of the Department’s Diplomatic Readiness Initiative.

- ***Embassy Security Construction and Maintenance (ESCM)*** — The budget provides \$1.5 billion for ESCM activities. This is \$234 million more than the amount needed to maintain purchasing power at the 2003 level, and \$258 million more than the 2003 enacted level. ESCM funding supports the construction and maintenance of safe and secure U.S. diplomatic facilities.

New Initiatives

- ***Millennium Challenge Account (MCA)*** — The budget includes \$1.3 billion for this new initiative, outlined by President Bush in March 2002. Funds from the MCA will be made available on a competitive basis to countries with low and moderate per capita incomes. Countries will receive MCA funds based on their performance on 16 economic and political indicators, grouped into three clusters: good governance, investment in people, and economic policy. The Administration has indicated its intention to request MCA levels adequate to provide \$5 billion in annual assistance by 2006. There is a discrepancy between the text of the budget documents, which reiterates this intention, and the supporting numbers which show the \$1.3 billion for 2004 increasing by small amounts in subsequent years, reaching a level of only \$1.4 billion by 2008. Congress has not yet considered legislation authorizing the MCA.
- ***Global AIDS Initiative*** —In his State of the Union Address, the President announced his Emergency Plan for AIDS Relief, a five-year, \$15 billion U.S. commitment—including \$10 billion in new money—to fight AIDS internationally. For 2004, the budget contains a total of \$2 billion toward this initiative in Function 150 and in HHS and CDC accounts. The Administration reports that \$1 billion of this \$2 billion represents new funding, though it is unclear whether this figure is based on a comparison with 2002 or the with the Administration’s 2003 budget request.

U.S. Foreign Aid in Comparison to Other Developed Countries —According to the most recent (2001) foreign aid figures from the Organization for Economic Cooperation and Development (OECD), the United States ranks 22nd in the world as a giver of foreign aid as a percentage of Gross National Product (GNP). The U.S. level is about one-tenth of one percent of GNP, which is about one-fourth of the average effort of developed countries. In absolute amount of foreign aid, the United States ranks first for 2001, after ranking second to Japan for several previous years.

Within Function 150, the budget provides \$450 million in new funding for this initiative. This new funding is not a contribution to the Global Fund to Fight AIDS, Tuberculosis, and Malaria; the budget continues last year’s request of \$200 million for the Global Fund, \$100 million of which is in Function 150.

Other Program Highlights

- ***Development Assistance and Child Survival and Health Programs*** — The budget provides \$1.3 billion for Development Assistance Programs and \$1.5 billion for Child Survival and Health Programs. These amounts are \$56 million less and \$324 million less, respectively, than the 2003 enacted levels for these programs.
- ***Funding for Afghanistan*** — The Administration’s budget for 2003 indicated that funding for Afghanistan in specific accounts was “To Be Determined.” The Administration subsequently indicated that its budget included about \$140 million for Afghanistan. The 2004 budget includes at least \$532 million for Afghanistan, in accounts including FMF, ESF, Development Assistance (\$150 million per account), and International Narcotics Control and Law Enforcement (\$40 million). The budget may provide additional unspecified funding for Afghanistan in other accounts.
- ***Counternarcotics Funding*** — The budget provides \$1.0 billion for all international counternarcotics programs, including \$731 million for the Andean counternarcotics control program. For all international counternarcotics programs, the budget provides \$15 million more than the amount needed to maintain purchasing power at the 2003 level. The budget provides \$57 million less than the 2003 enacted level for Andean narcotics control.
- ***Export-Import Bank*** — As the official credit agency of the United States, the Ex-Im Bank provides financing assistance to U.S. exporters and, when necessary, matches foreign subsidies so that U.S. companies can compete for business on an equal footing. The budget provides no new funding for 2004 (except for administrative expenses), but the Administration states that funding carried over from previous years will be sufficient to fund a loan level of \$14.6 billion. Last year’s budget requested \$541 million (\$510 million was enacted) for the loan program account for 2003, an amount the Administration stated would support \$11.5 billion in lending levels.

Function 250: General Science, Space, and Technology

This function includes the National Science Foundation (NSF), programs at the National Aeronautics and Space Administration (NASA) except for aviation programs, and general science programs at the Department of Energy (DOE) and the Department of Homeland Security.

The President's budget provides \$23.5 billion in funding for appropriated science and technology programs for 2004, which is \$426 million (1.8 percent) above the 2003 enacted level and virtually equal to the amount needed to maintain purchasing power at the 2003 level.

- **NASA** — The budget provides \$14.5 billion for NASA programs for 2004 in this function. Another \$993 million for NASA science, aeronautics, and technology is included in Function 400 (Transportation), bringing NASA's total to \$15.5 billion, which is just slightly above the 2003 enacted level and only \$186 million (1.2 percent) below the amount needed to maintain purchasing power at the 2003 level.

— **Space Shuttle:** The budget includes \$4.0 billion for the space shuttle, which is \$710 million (21.8 percent) more than the 2003 enacted level. However, this overstates the size of the President's increase because starting with its 2004 budget, NASA included in program totals the full cost of civil servant salaries and other costs previously included in other accounts. The 2004 total is \$182 million (4.8 percent) over the President's comparable 2003 request (which is \$3.8 billion). As shown in the box to the right, Congress has appropriated almost exactly what the President requested for the shuttle in recent years. For 2003, Congress appropriated an additional \$50 million for costs associated with the loss of the Columbia.

Space Shuttle Funding: 1994-2004

(dollars in billions)

	<u>Request</u>	<u>Enacted</u>
1994	4.196	3.779
1995	3.324	3.155
1996	3.232	3.179
1997	3.151	3.151
1998	2.978	2.928
1999	3.059	3.030
2000	2.986	3.011
2001	3.166	3.126
2002	3.284	3.279
2003	3.208	3.258
2004	3.968	n.a.

Source: NASA

- **NASA Science, Aeronautics, and Exploration:** The budget provides \$7.8 billion for NASA science, aeronautics, and exploration. Because NASA has reorganized its programs into two new accounts, it is hard to compare the 2004 total for science with prior funding levels. Overall, NASA funding is roughly equal to the level needed to maintain purchasing power at the 2003 level.
- **National Science Foundation** — The budget provides \$5.5 billion for appropriated programs in NSF, including \$68 million in Function 050 (National Defense). This is an increase of \$170 million (3.2 percent) over the 2003 enacted level but of only \$76 million (1.4 percent) over the amount needed to maintain purchasing power at the 2003 level.

Overall, NSF continues its emphasis on nanoscience and engineering, information technology research, and education. The budget includes \$4.1 billion for research and related activities, almost enough to maintain purchasing power at the 2003 level. Of this total, \$1.1 billion comprises 40 percent of the federal funding for university-based research in math and physical sciences. The NSF budget also includes \$938 million to support education and research in all science, technology, engineering, and mathematics disciplines, up \$20 million over the amount needed to maintain purchasing power at the 2003 level.

- ***DOE General Science Programs*** — The budget provides \$3.3 billion for general science programs in the DOE, which is \$49 million (1.5 percent) above the 2003 enacted level, and almost enough to maintain purchasing power at the 2003 level. The DOE science programs include energy-related basic research in the following areas: the health and environmental consequences of producing and developing energy; new energy technologies and environmental mitigation; fusion as a potential energy source; advanced computational and networking tools critical to science research; and fundamental energy research.
- ***Department of Homeland Security*** — The budget contains \$273 million for science and technology programs in the Department of Homeland Security.

Function 270: Energy

Function 270 comprises energy-related programs including research and development (R&D), environmental clean-up, and rural utility loans. Most of the programs are within the Department of Energy (DOE), although the rural utility program is part of the Department of Agriculture.

The President's budget for 2004 provides \$3.6 billion⁶ in appropriated funding for energy programs, which is \$125 million (3.6 percent) above the level needed to maintain purchasing power at the 2003 level. Over the five-year period (2004-2008), appropriated energy programs rise \$2.8 billion (15.9 percent) above this level.

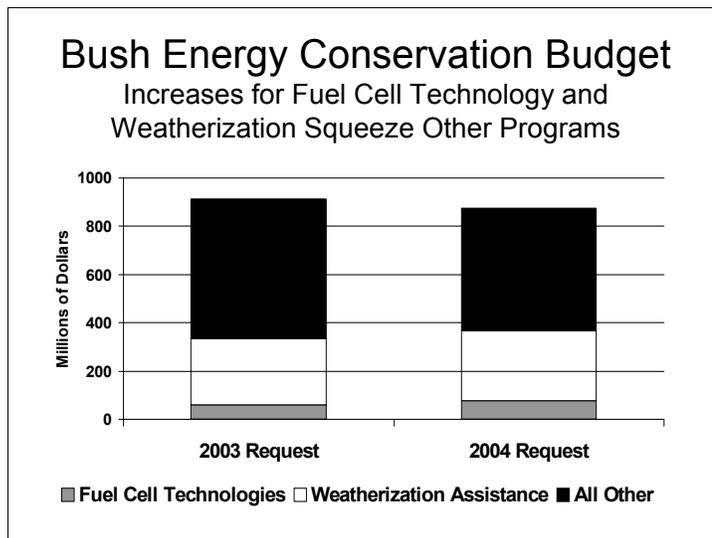
The receipts from marketing federally produced power and the fees that commercial nuclear reactors pay when generating electricity are recorded as negative mandatory spending in this function. Consequently, total mandatory spending is negative; the government takes in more money than it spends on these energy programs.

- ***Drilling in the Arctic National Wildlife Refuge (ANWR)*** — As in the previous two years, the budget assumes the opening of ANWR to oil and gas drilling. See *Function 300 (Natural Resources and Environment)* for further discussion.
- ***Rural Utilities*** — The budget provides \$19 million in appropriated funding for rural electrification loans, rural telephone loans, and the Rural Telephone Bank. This represents a cut of \$12 million (38.7 percent) from the amount needed to maintain purchasing power at the 2003 level. The Rural Utilities Service at the U.S. Department of Agriculture administers this funding to establish, expand, and modernize vital infrastructure for rural America.
- ***Vehicle and Fuel Cell Technologies*** — The 2004 budget provides \$158 million for the FreedomCAR and Vehicle Technologies Program, which seeks to develop more energy-efficient and environmentally conscious highway transportation. This level represents a cut of \$24 million from the comparable 2002 appropriation.

The budget also provides \$78 million for the Fuel Cell Technology program, whose goal is to develop and demonstrate fuel cell power system technologies for transportation and stationary applications. This level represents a \$31 million increase over the 2002 comparable appropriation.

⁶This funding reflects the amount requested in the President's budget, not CBO's March re-estimate of the budget.

- **Energy Conservation** — The budget includes \$876 million for energy conservation programs, which is \$32 million (3.5 percent) below the amount needed to maintain purchasing power at the 2003 level. The budget provides an increase in weatherization assistance grants under this category, providing \$288 million for 2004, or about \$11 million (4.0 percent) above the 2003 request. When the increase for weatherization grants is coupled with the Fuel Cell Technologies increase (explained above), the budget for remaining programs, such as research and development for energy efficient buildings and industry, state energy program grants, and biomass and biorefinery systems, face cuts much steeper than 3.5 percent.



- **Power Marketing Administrations (PMAs)** — The budget provides \$185 million for the three federally subsidized PMAs, which sell to public utilities and cooperatives the electricity generated primarily by hydropower projects at federal dams. This represents a cut of \$17 million (8.5 percent) from the 2003 enacted level.

Like last year, the budget also provides an additional \$700 million in borrowing authority for Bonneville Power Administration. This additional authority allows Bonneville Power Administration to finance new energy infrastructure investments in the Northwest to assure the continuity of a reliable Northwest energy supply. The proposal costs \$85 million in 2005 and \$700 million over the three-year period (2005-2007). This proposal was enacted as part of the 2003 omnibus appropriations bill.

Also as in previous years, the budget transfers PMA receipts to the Corps of Engineers. Beginning in 2003, the financing of operation and maintenance cost of the Corps of Engineers in the Southeastern, Southwestern, and Western service areas will be funded by PMA receipts. Bonneville Power Administration already funds certain Corps of Engineers hydropower facilities in this manner. The proposal costs \$145 million in 2003 and \$1.5 billion over the five-year period (2004-2008).

- **Renewable Energy Winners and Losers** — Renewable energy programs receive \$444 million for 2004 in the budget, a \$37 million (9.1 percent) increase over the 2003 request.

The hydrogen research program receives a \$48 million (120.6 percent) increase, while nearly all other programs are cut sharply relative to the 2003 request. The 2004 levels for solar energy, geothermal technology, and biomass/biorefinery systems are below the levels appropriated for 2002.

Energy-Related Tax Proposals	
Billions of Dollars	
<u>Proposal</u>	<u>Ten-Year Cost</u>
Extend & modify tax credit for producing electricity from certain sources	1.5
Provide tax credit for residential solar energy systems	0.1
Modify treatment of nuclear decommissioning funds	2.3
Provide tax credit for purchase of certain hybrid and fuel cell vehicles	3.2
Provide tax credit for energy produced from landfill gas	0.7
Provide tax credit for combined heat and power property	0.3
Provide excise tax exemption (credit) for ethanol	0.0
Total	8.0
<i>Numbers may not add due to rounding</i>	

- ***Fossil Energy Research and Development*** — The budget provides \$519 million for fossil energy R&D, a decrease of \$114 million (18.0 percent) from the amount needed to maintain purchasing power at the 2003 level. The budget provides \$321 million for the President’s Clean Coal Initiative, a cut of \$12 million (3.7 percent) from the comparable 2002 appropriation, but an increase of \$5 million (1.6 percent) over the 2003 request.
- ***Nuclear Waste Disposal*** — The budget provides \$161 million for 2004 to fund the Office of Civilian Radioactive Waste Management, which implements federal policy for disposal of commercial spent nuclear fuel and high-level radioactive waste resulting from the nation’s atomic energy defense activities. This funding represents an increase of \$17 million (11.8 percent) above the 2003 enacted level. The budget includes in Function 050 (National Defense) an additional \$430 million for disposal of weapons-related nuclear waste. The focus of this funding will shift from determining the viability of Yucca Mountain, Nevada, as the site for a permanent geological repository for nuclear waste to licensing, building, and operating the repository facilities and transportation system needed to accept, ship, and dispose of waste.

Function 300: Natural Resources and Environment

Function 300 includes programs concerned with environmental protection and enhancement; recreation and wildlife areas; and the development and management of the nation's land, water, and mineral resources. It includes programs within the following federal departments and agencies: Agriculture, Commerce, Interior, Transportation, the Army Corps of Engineers, and the Environmental Protection Agency. This function does not include the large-scale environmental clean-up programs at the Departments of Defense and Energy. See *Function 050 (Defense)* for information on those programs.

Third Straight Year of Cuts to Environmental Programs

In the area of natural resources and environment, the President's budget is very much a repeat of the last two years. The Administration continues to cut natural resources and environmental protection programs, while at the same time weakening the regulatory underpinnings of environmental protection. As part of its attempt to squeeze programs in this area, the Administration repeats many of the same proposals that were in previous budgets and that Congress flatly rejected.

For 2004, the President's budget significantly cuts funding for programs that protect public health and the environment. The budget provides \$28.0 billion in appropriations for these programs, which is \$2.1 billion (7.0 percent) below the level needed to maintain purchasing power at the 2003 level and \$1.2 billion (4.3 percent) below the 2003 enacted level.⁷

The President's budget continues to squeeze these programs in the following four years. Over five years (2004-2008), the budget's funding for appropriated programs is \$13.3 billion (8.3 percent) below the level required to maintain purchasing power at the 2003 level. This failure to maintain the federal commitment to environmental protection in the budget matches the Administration's efforts to weaken longstanding regulatory protections for our air, water, and forests.

Budget Details

- ***Environmental Protection Agency (EPA)*** — For 2004, the President's budget provides \$7.6 billion in appropriations for EPA, \$627 million (7.6 percent) below the level needed to maintain purchasing power at the 2003 level and \$452 million (5.6 percent) below the 2003 enacted level. The budget features a few modest increases to particular programs.

⁷ This funding reflects the amount requested in the President's budget, not CBO's March re-estimate of the budget.

As described below, these increases are more than offset by a large cut to water infrastructure funding.

- ▶ ***Drastic Cut to Aid for Wastewater Infrastructure*** — For 2004, the President's budget dramatically cuts the Clean Water State Revolving Fund (SRF) Program, which provides seed money to state revolving loan funds (SRFs). These SRFs in turn loan money for improvements to wastewater treatment facilities. The budget provides \$850 million, \$514 million (36.8 percent) below the level needed to maintain purchasing power at the 2003 level.

The Administration claims that its 2004 funding levels will allow the nation to close the gap between current funding levels and future needs. However, EPA's own reports and those by CBO and others document a huge unmet need for improvements to wastewater infrastructure that will not be met without a larger federal investment.

- ▶ ***Drinking Water Aid Nearly Frozen*** — The President's budget provides \$850 million for the Drinking Water SRF Program, just \$6 million more than the 2003 enacted level of \$844 million.
- ***Drilling in the Arctic National Wildlife Refuge*** — As in the previous two years, the President's budget assumes opening the Arctic National Wildlife Refuge (ANWR) to oil and gas exploration. Although assumed in the budget, the Administration cannot implement this extremely controversial proposal without new legislation from Congress. Over the 2004-2008 period, the budget includes \$1.3 billion from lease bonuses for the federal treasury and \$1.3 billion collected and disbursed to the state of Alaska.
- ***Army Corps of Engineers*** — In another repeat from the previous two years, the President's budget makes a significant cut to appropriations for the Army Corps of Engineers. This year, the budget cuts the Corps budget to \$4.2 billion,⁸ \$523 million (11.1 percent) below the level needed to maintain purchasing power at the 2003 level. The President's 2004 request is \$405 million (8.8 percent) below the 2003 enacted level of \$4.6 billion. In an effort to reduce the agency's backlog of work on ongoing projects, the budget includes only five new studies and one construction start.

The budget finally contains some of the policy reforms critics have demanded to keep the

⁸ Some presentations show the Army Corps 2004 appropriations at \$4.0 billion. This discrepancy exists because the budget proposes to finance the costs of routine operation and maintenance of certain Army Corps hydropower facilities directly from receipts of the Power Marketing Administrations. This proposal, which requires new legislation from Congress, has the effect of lowering the Corps appropriations total by \$145 million for 2004. This proposal has been excluded from the analysis in order to provide a more consistent comparison.

Corps from moving ahead on projects that are environmentally harmful and of questionable economic benefit. For instance, the budget requires that Corps projects be independently reviewed by outside experts before they are approved and it calls for improvements to the agency's economic models.

- ***Conservation Spending Category*** — The budget fails to fully fund the Land, Conservation, Preservation and Infrastructure Improvement Fund, the conservation spending category established in 2001 to provide dedicated funding for programs addressing the loss of open space, wildlife habitat, and cultural treasures. The conservation category is authorized at \$2.1 billion for 2004. The Administration's budget only provides \$1.6 billion, \$483 million below the level authorized in law.
- ***Land and Water Conservation Funding (LWCF)*** — Funding for LWCF programs in the President's 2004 budget totals \$901 million. (These programs are contained within the conservation spending category described above.) The Administration claims that with this total it is fully funding the LWCF program. However, as in the past two years, it accomplishes this by using LWCF funding for programs not traditionally associated with the Fund. Full funding would mean \$900 million split evenly between federal land acquisition and grants to states for the same purpose. Instead, the Administration diverts significant amounts of LWCF funds to unauthorized programs, including agencies' operating expenses. Of the total requested, only 39 percent would fund authorized LWCF activities.
- ***Cap on Farm Conservation Security Program*** — Authorized by the 2002 Farm Bill, the Conservation Security Program provides financial and technical assistance for the conservation and protection of natural resources on private working lands. Prior to enactment of the 2003 omnibus appropriations act, spending for this program was projected to be roughly \$7 billion over the next ten years (2004-2013). As an offset for drought assistance, the omnibus capped the program's spending at \$3.8 billion over the same time period.

The President's budget lowers the cap even more to \$2 billion over ten years. Since the budget was written prior to enactment of the omnibus, it claims \$5.2 billion in savings over ten years. However, because of the cap put in place by the omnibus appropriations act, savings from the President's cap are closer to \$1.8 billion over the years 2004-2013.

- ***Superfund*** — For 2004, the President's budget provides \$1.4 billion for cleaning up the nation's worst hazardous waste sites under EPA's Superfund program. This amount is \$125 million (9.9 percent) more than the 2003 enacted level and \$98 million more than the amount required to maintain purchasing power at the 2003 level. With this funding, the Administration plans to complete 40 clean-ups.

The President's budget provides almost all of the funding (\$1.1 billion) from general revenues and the rest from the Superfund trust fund. The trust fund has historically supplied most of the funds appropriated for the Superfund program. However, the taxes that fed into the trust fund expired in 1995, and the trust fund's balance is almost depleted.⁹ Failure to reinstate the Superfund taxes has required the greater reliance on general revenues, which many interpret as a move away from the "polluter pays" principle behind the Superfund program. The President's budget does not reinstate the Superfund taxes.

- ***New Land Sale Authority for Bureau of Land Management*** — The President's budget gives the Bureau of Land Management new flexibility regarding the sale of federal lands and the use of receipts generated by land sales. Over the next five years (2004-2008) the Administration expects the agency to generate \$161 million in new mandatory receipts and to spend \$69 million of them.
- ***Environmental Tax Incentives*** — The President's budget contains two environmental tax incentives, one intended to encourage the clean-up of brownfields and the other to encourage voluntary land protection. First, the budget would permanently extend the provision in current law that allows businesses to expense certain environmental remediation costs that would otherwise count as capital investments. That provision is set to expire in December 2003. This extension of current law lowers federal revenues by \$1.2 billion over five years (2004-2008).

Second, the budget includes a tax incentive intended to encourage voluntary land conservation. The budget would exclude from income 50 percent of any gains from sales of land for conservation purposes. This incentive lowers federal revenues by \$209 million over five years (2004-2008).

⁹ The taxes that expired in 1995 consisted of excise taxes on petroleum and chemical feedstocks and a corporate environmental income tax.

Function 350: Agriculture

Function 350 includes farm income stabilization, agricultural research, and other services administered by the U.S. Department of Agriculture (USDA). The discretionary programs include: research, education, and rural development programs; economics and statistics services; meat and poultry inspection; and a portion of the Public Law (P.L.) 480 international food aid program. The mandatory programs include commodity programs, crop insurance, and certain farm loans.

Mandatory Spending

- ***Farm Bill Programs*** — The President’s budget spends \$15.1 billion in 2004 on mandatory agriculture programs, which is consistent with OMB’s estimate of current services. However, the budget cuts spending for certain farm bill conservation programs. See *Function 300 (Natural Resources and Environment)* for further details. The budget does not provide any additional spending for drought relief, but the 2003 omnibus appropriations bill provided \$3.1 billion for emergency agricultural assistance, including drought aid.
- ***Crop Insurance*** — As in previous years, the budget incorporates a change to the Standard Reinsurance Agreement (SRA) between the Federal Crop Insurance Corporation and private insurance companies. The budget caps underwriting gains at 12.5 percent, saving an estimated \$68 million in 2004 and \$354 million over five years. Many insurers have indicated they would stop offering insurance should a cap be placed on underwriting gains. This could disrupt the delivery system for crop insurance, forcing smaller crop insurance companies out of the market and making it more difficult for farmers to find insurance policies.

Appropriated Programs

The President’s budget provides \$5.4 billion¹⁰ for appropriated agriculture programs for 2004, \$500 million (8.5 percent) below the amount needed to maintain purchasing power at the 2003 level. Over the five-year period (2004-2008), the budget cuts agriculture funding by \$2.5 billion (8.0 percent).

- ***Agricultural Research and Services*** — The budget provides \$3.7 billion for agriculture research and services, \$389 million (9.4 percent) less than the amount needed to maintain purchasing power at the 2003 level. Agencies that receive funding in this category

¹⁰This funding reflects the amount requested in the President’s budget, not CBO’s March re-estimate of the budget.

include: the Animal and Plant Health Inspection Service; the Foreign Agriculture Service; the Agricultural Marketing Service; the National Agricultural Statistics Service; the Economic Research Service; and the Cooperative State Research, Education, and Extension Service.

- ***Grain Inspection, Packers and Stockyards Administration (GIPSA)*** —

Like last year, the budget includes two user fee proposals for the Grain Inspection, Packers and Stockyards Administration (GIPSA). Fees are

assessed on those who receive, ship, store, or process grain (raising \$5 million in 2004) to cover the costs of developing, reviewing, and maintaining official U.S. grain standards used by the grain industry. New license fees are also assessed on packers, live poultry dealers, poultry processors, stockyard owners, market agencies, dealers, and swine contractors (raising \$24 million in 2004) to fund the Packers and Stockyards program.

- ***Initiative for Future Agricultural Food Systems*** — The 2002 Farm Bill reauthorized the Initiative for Future Agriculture and Food Systems through 2011, providing \$120 million for the program for 2004. The funding for this program has been blocked by the Appropriations Committee for four of the past five years. The 2004 budget continues the practice of blocking this funding, saving \$120 million.

Global Food for Education Initiative

The budget provides \$50 million in appropriated funding for 2004 for the Global Food for Education Initiative (GFEI), rather than using mandatory Section 416(b) donation authority under the Commodity Credit Corporation. GFEI received \$112 million in 2002 for a pilot program, and the 2002 Farm Bill authorized a \$100 million program level in 2003.

Function 370: Commerce and Housing Credit

Function 370 includes deposit insurance and financial regulatory agencies such as the Securities and Exchange Commission (SEC); the mortgage credit programs of the Department of Housing and Urban Development (HUD); the Department of Commerce's Census Bureau, its business promotion programs, and its technology development programs; rural housing loans; the Small Business Administration's business loans; the Postal Service (USPS); and other regulatory agencies such as the Federal Communications Commission (FCC).

Appropriated Programs

Under the President's budget, appropriated funding for Function 370 for 2004 is negative \$979 million, a decrease of \$1.1 billion from the 2003 enacted level of \$150 million.¹¹ Negative spending levels in this function are relatively commonplace because credit programs and the fee-funded programs in the function often receive more in collections than they spend.

Significant programmatic differences between the 2004 budget and the 2003 enacted level include more funding for the Securities and Exchange Commission, changes in patent and trademark fees, and sharp reductions in certain Department of Commerce programs.

- ***Funding for Securities and Exchange Commission (SEC) increased by \$131 million*** — The budget provides \$842 million for the SEC, an increase of 18.3 percent from the 2003 enacted level and \$105 million more than the amount necessary to maintain purchasing power at the 2003 level. This increase allows the SEC to increase its staff to handle expanded workload demands in areas such as investigating fraud, supervising securities markets, and regulating investment management.
- ***Patent and Trademark Office (PTO) Charges Higher Fees*** — The budget includes legislation to restructure fees charged for PTO products and services. In 2002, following an internal review, the PTO determined that it must use existing resources more effectively and increase its total resources in order to address growing backlogs and increase the quality of the office's work. The fee restructuring will raise fee collections in 2004 by \$201 million, or 15.4 percent, above the level that PTO would collect under current law.
- ***Funding Increase for Scientific and Technical Research and Services*** — The budget provides \$380 million for the scientific and technical research program of the National Institute for Standards and Technology, a \$23 million increase from the 2003 enacted

¹¹This funding reflects the amount requested in the President's budget, not CBO's March re-estimate of the budget.

level. This funding is \$11 million above the amount needed to maintain purchasing power at the 2003 level.

- ***Budget Terminates the Advanced Technology Program*** — The budget ends the Advanced Technology Program, which provides assistance to U.S. businesses and joint ventures to improve their competitive position. The goal of the program is to accelerate the commercialization of technology that is risky to develop but promises significant national economic benefits. The budget reduces funding to \$27 million, \$152 million below the 2003 enacted level. The \$27 million is designated for administrative costs and close-out of the program.
- ***Budget Dramatically Cuts Federal Support of the Manufacturing Extension Partnership*** — The budget provides \$13 million for the Manufacturing Extension Partnership, a reduction of \$93 million, or 87.7 percent, below the 2003 enacted level. The program provides information and consulting services to help businesses adopt advanced manufacturing technologies and business practices.

Mandatory Programs

- ***Federal Deposit Insurance Programs Merged*** — The budget merges two insurance fund programs, the Bank Insurance Fund and the Savings Association Insurance Fund, which offer an identical product. The budget anticipates that merging these funds will reduce the need for insured financial institutions to increase their premium payments in the near term. This policy reduces collections by \$453 million in 2004 and \$1.4 billion through 2008.

Function 400: Transportation

Function 400 is comprised mostly of the programs administered by the Department of Transportation (DOT), including programs for highways, mass transit, aviation, and maritime activities. This function also includes two components of the new Department of Homeland Security: the Coast Guard and the Transportation Security Administration (TSA). The function also includes several small transportation-related agencies and the research program for civilian aviation at the National Aeronautics and Space Administration.

Budget Summary

For transportation programs in 2004, the President's budget provides \$61.9 billion in appropriated budgetary resources (budget authority plus obligation limitations).¹² This funding level is \$3.4 billion (5.2 percent) lower than the level required to maintain purchasing power at the 2003 level. The President's 2004 transportation budget is \$2.0 billion (3.2 percent) below the 2003 enacted level.

This overall decrease for 2004 relative to the 2003 enacted level reflects a cut of \$2.3 billion in federal aid for highways and a cut to the TSA budget (reportedly because its start-up costs have declined), combined with a large increase for the Coast Guard and flat funding in other areas.

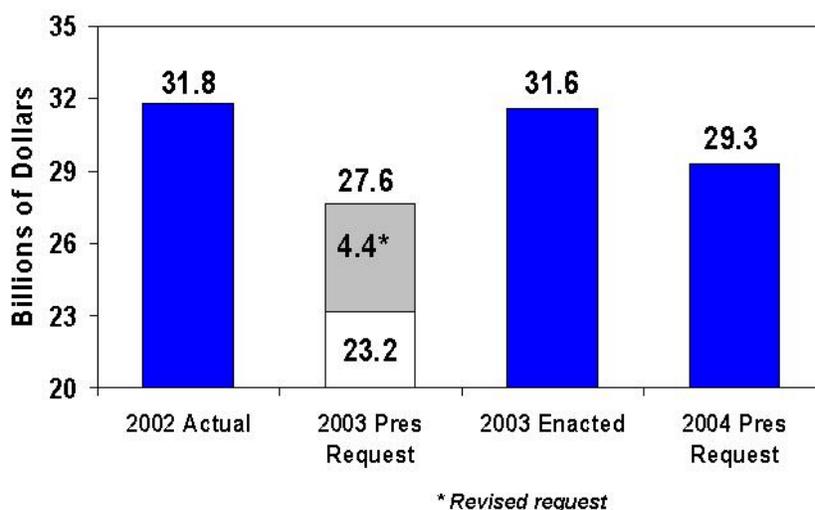
Budget Details

- **Highway Funding Cut** — The President's budget provides 2004 federal-aid highway funding of \$29.3 billion, a cut of \$2.3 billion (7.3 percent) from the 2003 enacted level of \$31.6 billion. This \$2.3 billion cut for 2004 follows the highly controversial \$8.6 billion cut the President initially proposed last year. For 2003, Congress rejected the President's large cut and would have matched the previous year's funding level of \$31.8 billion, if not for the across-the-board cut in the omnibus appropriations act. Cuts to federal highway aid will only exacerbate the already severe fiscal difficulties that states are facing.

In March, the President is expected to release a more detailed proposal for the reauthorization of surface transportation programs, which expire this year. This proposal will apparently seek to ameliorate the recent wide swings in highway spending called for by the formulas in current law.

¹² This funding reflects the amount requested in the President's budget, not CBO's March re-estimate of the budget. Some DOT programs are funded with traditional appropriations. However, highway programs, most mass transit programs, and the Federal Aviation Administration's airport improvement grants are usually funded with mandatory contract authority. The Appropriations Committees constrain the use of this mandatory contract authority by setting obligation limitations. Outlays resulting from the obligation limitations are counted as discretionary outlays.

Funding for Federal-Aid Highways



Prepared by the Democratic Staff of the House Budget Committee

02/1/03

- ***New \$1 Billion Highway Initiative*** — The Administration includes in its 2004 budget a new Infrastructure Performance and Maintenance initiative aimed at addressing immediate highway needs and funding “ready-to-go” projects. The Administration proposes to spend \$1 billion annually over the next six years on this initiative to address traffic congestion and to improve road and bridge conditions. This funding is included in the budget’s overall total for highways.
- ***Additional Receipts for Highway Trust Fund*** — The President’s budget deposits an additional 2.5 cents per gallon of the excise tax on gasohol (ethanol-based gasoline) into the Highway Trust Fund. Under current law, that 2.5 cents per gallon is deposited into the General Fund. In contrast, all of the excise tax on gasoline (18.3 cents per gallon) is deposited into the Highway Trust Fund.¹³

Last year, Congress considered several proposals to significantly boost the use of gasohol. Because of the lower rate of taxation for gasohol, these proposals raised concerns that receipts deposited into the Highway Trust Fund would be adversely affected. Lower receipts would then translate into less federal aid for highway construction and maintenance. The President’s proposal is one way to address those

¹³ For both types of fuel, an additional 0.1 cent per gallon of excise tax is deposited in the Leaking Underground Storage Tank Trust Fund.

concerns. The Administration estimates that this change, which takes effect in September 2003, will increase trust fund receipts by over \$600 million per year.

- **Flat Funding for Federal Transit Administration (FTA)** — The President’s 2004 request for FTA is \$7.2 billion, the same as the 2003 enacted level (prior to the across-the-board cut in the omnibus appropriations act). The use of mass transit has been increasing steadily in recent years, and flat funding could hurt transit authorities’ efforts to satisfy that rising demand.

According to the FTA Administrator, the 2004 request is consistent with the President’s forthcoming proposal for reauthorization of TEA-21. The President’s budget for FTA contains a new \$145 million initiative to reduce the transportation barriers that discourage disabled persons from entering the workforce.

- **New Cost-Sharing Requirements Proposed for FTA’s New Starts** — In his FTA budget, the President has proposed increasing the state or local government share for major transit projects under the New Starts grant program from 20 percent to 50 percent. The Administration has characterized the change as a way of awarding more grants around the country. However, some transit advocates have complained that the proposal will only widen the gap between highway and transit spending, because federal highway aid will have a lower matching requirement than transit.
- **Amtrak** — For 2004, the budget provides \$900 million in grant funding for Amtrak. Of this amount, \$671 million is for operating costs and \$229 is for maintenance and capital improvements. The budget states that in the upcoming reauthorization of intercity passenger rail, the Administration will attempt to require increased state financial support for Amtrak’s long-distance routes.

In the 2003 omnibus appropriations act, Congress provided just over \$1.0 billion and postponed Amtrak’s repayment of a \$100 million loan. Amtrak’s President has stated that the rail service needs \$1.2 billion in federal support for 2003 to keep operating.

Federal Grants to Amtrak
(budget authority in millions of dollars)

	2002	2003	2004
President’s Request	521	521	900
Enacted	826*	1,043	--

* includes \$305 million in supplemental appropriations.

- **Transportation Security Agency (TSA)** — The budget includes \$4.8 billion for TSA, now part of the Department of Homeland Security. This amount is \$346 million (6.7 percent) less than the 2003 level of \$5.1 billion, the first full year of funding for the new agency. The Administration states that the 2003 total included one-time startup and roll-out costs for the agency of \$685 million that are not needed for 2004. After subtracting these one-time costs, the funding in the President’s 2004 budget represents an increase of \$339 million (7.6 percent) over the 2003 enacted level.

The President’s 2004 budget includes: \$4.3 billion for direct aviation security activities; \$85 million for TSA’s land security activities; \$55 million for checking the credentials of transportation workers; and \$65 million for research and development.

- **Coast Guard** — The President’s budget provides \$6.8 billion for the Coast Guard, now part of the Department of Homeland Security. Of this amount, \$5.6 billion is appropriated funding and \$1.2 billion is for mandatory spending, which consists mostly of retirement pay. The 2004 budget provides appropriated funding that is \$357 million (6.8 percent) higher than the level required to maintain purchasing power at the 2003 level and \$500 million (9.7 percent) higher than the 2003 enacted level of appropriations. This dramatic increase in funding over the last two years is due to the Coast Guard’s expanded role in homeland security. At the same time, over 50 percent of the Coast Guard’s budget is still devoted to non-homeland security activities (see table below).

Coast Guard Appropriations, President’s 2004 Budget
(budget authority in millions of dollars)

	Homeland	Non-Homeland	Total
Operating Expenses, DOD Portion	340	--	340
Operating Expenses	1,763	2,693	4,456
Capital Acquisitions	440	333	773
Other	--	65	65
Total	2,543 (45%)	3,091 (55%)	5,634

Source: OMB, Department of Homeland Security 2004 Budget in Brief

- **No Specific Funding for Port Security Grants** — The budget does not request specific funds for grants to port authorities for security upgrades. These grants were authorized as part of the port and maritime security legislation passed by the Congress and signed into law in November 2002.

- ***Maritime Administration*** — Like the last two years, the President’s budget eliminates funding for new loan guarantees under the Maritime Guaranteed Loan (Title XI) Program. This program guarantees loans for purchases from the U.S. shipbuilding industry and for shipyard modernization. For 2002, Congress ignored the President’s request and provided \$37 million for the program. However, for 2003, Congress did not appropriate any new funds for new loan guarantees and provided \$4 million solely for administrative expenses. For 2004, the President’s budget again provides no funding for new loan activities and \$4.5 million for the cost of administering pre-existing loan guarantees.

Function 450: Community and Regional Development

Federal support for community and regional development helps promote growth in economically distressed urban and rural communities and provide assistance to states and localities in times of crisis. Major agencies and programs included in this function are the Empowerment Zones, Community Development Block Grants, the Economic Development Administration, the Appalachian Regional Commission, rural development programs in the Department of Agriculture, the Bureau of Indian Affairs, and the Small Business Administration's disaster loan program. The President's budget also includes in the function the Homeland Security Department's Emergency Preparedness and Response initiative, which combines operations previously performed under the Federal Emergency and Management Agency with the Administration's Office of Domestic Preparedness.

The President's budget includes \$14.2 billion for the Community and Regional Development function for 2004, a \$2.5 billion increase over the 2003 enacted level, and a \$2.2 billion increase over the amount needed to maintain purchasing power at the 2003 level.¹⁴ This increase represents the cost of funding the Office of Domestic Preparedness under the Department of Homeland Security. The budget, however, significantly cuts other programs in this function. Following is an overview of the President's treatment of several programs in the budget.

- ***Emergency Preparedness and Response*** — The President's Emergency Preparedness and Response Department funds state and local emergency assistance by merging relief and insurance operations previously funded under the Federal Emergency and Management Agency (FEMA) with the Administration's Office of Domestic Preparedness initiative. The President's budget provides \$6.2 billion for the department, a \$3.3 billion increase over the amount needed to maintain purchasing power at the 2003 FEMA level. The increase goes toward creating the Office of Domestic of Preparedness, which is funded at \$3.1 billion to train "first responders" to emergencies and provide terrorism-related equipment. The budget funds this initiative through cuts to state and local criminal justice assistance under Function 750 (Administration of Justice).
- ***Community Development Block Grant (CDBG) Program Cut*** — Community Development Block Grants provide funds for programs and activities that promote economic development in low- and moderate-income communities. The President's budget provides \$4.7 billion for CDBGs, a \$173 million (3.5 percent) cut below the 2003 enacted level, and a \$256 million (5.1 percent) cut below the amount needed to maintain purchasing power at the 2003 level.

¹⁴The President's levels in this section reflect the amounts requested in the President's budget, not CBO's March re-estimate of the budget.

- ***Community Development Financial Institutions (CDFI) Fund Cut*** — The CDFI program provides grants, loans, and other assistance to promote investment in economically distressed areas. The budget provides \$51 million for CDFI, a \$25 million (32.9 percent) cut below the amount needed to maintain purchasing power at the 2003 level.
- ***Economic Development Administration Increase*** — Economic Development Assistance programs provide grants and other assistance to help alleviate unemployment and underemployment in economically distressed regions. The budget provides \$331 million for Economic Development Assistance programs, a \$38 million (13.0 percent) increase over the 2003 purchasing power level.
- ***Appalachian Regional Commission Cut*** — The Appalachian Regional Commission aids economic development in the Appalachian region. The budget provides \$33 million for the Appalachian Regional Commission, a \$39 million (54.2 percent) cut below the amount needed to maintain purchasing power at the 2003 level.
- ***Rural Community Advancement Cut*** — The Rural Community Advancement (RCA) program provides grants, loans, and loan guarantees to stimulate economic growth and build facilities in rural communities. The budget provides \$478 million for the Rural Community Advancement program, a \$439 million (47.9 percent) cut below the amount needed to maintain purchasing power at the 2003 level.
- ***Empowerment Zones Eliminated*** — Empowerment Zones target funds to revitalize economically distressed urban and rural communities and attract private investment in those communities. The budget eliminates urban and rural empowerment zones. To maintain purchasing power at the 2003 level, urban empowerment zones would require \$31 million and rural empowerment zones would require \$15 million.
- ***Brownfields Redevelopment Program Eliminated*** — The Brownfields Redevelopment Program provides competitive economic development grants under the Department of Housing and Urban Development for brownfield projects. The budget eliminates funding for the program, which would require \$25 million to be funded at the 2003 level.

Function 500: Education, Training, Employment, and Social Services

Function 500 includes funding for the Department of Education, social services programs within the Department of Health and Human Services, and employment and training programs within the Department of Labor. It also contains funding for the Library of Congress and independent research and art agencies such as the Corporation for Public Broadcasting, the Smithsonian Institution, the National Gallery of Art, the John F. Kennedy Center for the Performing Arts, the National Endowment for the Arts, and the National Endowment for the Humanities.

The President's budget for 2004 provides \$75.2 billion¹⁵ in discretionary funding for programs in this function, \$2.4 billion (3.2 percent) above the 2003 enacted level and \$861 million below the amount needed to maintain purchasing power for these programs at the 2003 level. However, this relatively small decrease in purchasing power masks the severe decreases in certain programs, such as job training and after-school programs, that are somewhat offset by increases in a few high-profile programs, such as special education and Title I.

Education

The President's 2004 budget provides \$53.1 billion in appropriations for the Department of Education, almost the same as the 2003 enacted level but \$594 million (1.1 percent) below the amount needed to maintain purchasing power at the 2003 level. Of the 2004 total, \$1.9 billion is dedicated to filling the shortfall in Pell Grant funding from prior years, and thus provides no new education aid for 2004. Discounting this \$1.9 billion, the President's budget provides significantly less than the 2003 enacted level for education programs for 2004.

The 2004 budget continues the theme in the President's previous budget by eliminating 46 education programs, cutting most other programs back to the 2002 enacted level, and increasing funding for just a few. At the same time, it diverts federal funding from public schools and into private schools through a new tax credit to offset the cost of some students attending private schools; this proposal costs \$226 million in 2004 and \$3.3 billion over five years (2004-2008).

- ***Cuts Funding for No Child Left Behind Act*** — The \$22.6 billion to fund programs under the No Child Left Behind Act (NCLB) in the President's budget is \$1.2 billion below the 2003 enacted level, \$1.4 billion below the amount needed to maintain purchasing power at the 2003 level, and more than \$9 billion below the amount authorized for 2004.

¹⁵This funding reflects the amount requested in the President's budget, not CBO's March re-estimate of the budget.

- **Cuts Major Education Programs** — The budget cuts many programs below the 2003 enacted level and even farther below the amount needed to maintain purchasing power at the 2003 level, including the following:
 - **21st Century Community Learning Centers** after-school program receives \$600 million, a cut of \$392 million from the 2003 enacted level and of \$411 million (40.7 percent) from the amount needed to maintain purchasing power at the 2003 level. It is \$1.2 billion below the level Congress authorized for 2004 in NCLB;
 - **Teacher Quality Programs** receive \$3.1 billion, a cut of \$268 million (7.9 percent) from the 2003 enacted level;
 - **Education Technology** programs receive \$722 million, a cut of \$53 million from the 2003 enacted level;
 - **Impact Aid** receives \$1.0 billion, a cut of \$173 million from the 2003 enacted level and of \$192 million (15.9 percent) from the amount needed to maintain purchasing power at the 2003 level;
 - **Vocational Education** receives \$1.0 billion for 2004, a cut of \$336 million (25.1 percent) from the 2003 enacted level;
 - **Fund for the Improvement of Education** receives \$35 million for 2004, a cut of \$284 million (89.0 percent) below the 2003 enacted level;
 - **Safe and Drug-Free Schools** receives \$694 million, a cut of \$22 million (3.0 percent) below the 2003 enacted level and of \$28 million below the amount needed to maintain purchasing power at the 2003 level; and
 - **Perkins Loans** receives \$68 million, a cut of \$99 million below the 2003 enacted level and of \$102 million (60.3 percent) from the amount needed to maintain purchasing power at the 2003 level.

- **Eliminates 46 Education Programs** — The President’s 2004 budget eliminates 46 programs that receive a total of \$1.6 billion for 2003 (the complete list is on the next page). The President’s 2003 budget also proposed to eliminate most of these programs, but this year it adds to this list the following eight programs, funded at \$553 million for 2003:
 - Comprehensive School Reform (\$233 million);
 - Tech-Prep education state grants (\$107 million);
 - Perkins loans capital contributions (\$99 million);
 - Regional Educational Laboratories (\$67 million);
 - Assistive Technology (\$27 million);
 - vocational education national programs (\$12 million);
 - adult education national leadership activities (\$9 million); and
 - loan forgiveness for child care providers (\$1 million).

Special Education

The budget provides \$9.5 billion for the Individuals with Disabilities Education Act (IDEA) Part B grants to states, an increase of \$654 million over the 2003 enacted level and of \$488 million (5.4 percent) over the amount needed to maintain purchasing power at the 2003 level. However, the 2004 funding puts the federal contribution at only 19 percent of the national average per pupil expenditure, still less than half the 40 percent “full funding” federal contribution ceiling authorized by IDEA.

46 Education Programs Eliminated in the President's 2004 Budget

(Dollars in Millions, 2003 Enacted Level)

<i>Program</i>	<i>2003 \$</i>	<i>Program</i>	<i>2003 \$</i>
Improving Teacher Quality:		Vocational Education:	
Preparing Tomorrow's Teachers	62.1	Tech-Prep Ed. Grants	107.3
National Writing Project	16.9	Vocational Ed. Natl. Programs	11.9
School Leadership	12.4	Occupational & Employment Info	9.4
Advanced Credentialing	9.9	Tech-Prep Demonstration	5.0
Education Technology:		Adult Education:	
Community Technology Centers	32.3	Grants for Incarcerated Youth	18.4
Comprehensive Regional Ast. Ctrs.	27.8	Offenders	
Star Schools	27.3	Adult Education Natl. Leadership	9.4
Ready To Teach	14.4	Literacy Programs for Prisoners	5.0
Regional Technology in Ed.	9.9		
Comprehensive School Reform	233.5	Smaller Learning Communities	160.9
Higher Education:		Rehabilitation Services:	
Perkins Loans Capital Contribution	99.4	Assistive Technology	26.8
Leveraging Ed. Assist.	66.6	Supported Employment Grants	37.9
Partnerships	7.0	Projects With Industry	21.9
Demos for students w/ disabilities	5.0	Recreational Programs	2.6
Thurgood Marshall Legal Ed.	2.2	Migrant & Seasonal Farmworkers	2.3
Underground Railroad Program	1.0		
B.J. Stupak Olympic Scholarships		Javits Gifted & Talented Education	11.2
Rural Education	167.7	Physical Education Program	59.6
Regional Education Laboratories	67.1	Foreign Language Assistance	16.1
Elementary/Secondary Counseling	32.3	Exchanges with Historic Whaling and Trading Partners	7.0
Eisenhower Math/Science Consortia	14.9	Dropout Prevention	10.9
Eisenhower National Clearinghouse	5.0	Women's Educational Equity	3.0
Parental Assistance Info. Centers	42.2	Close-Up Fellowships	1.5
Arts in Education	33.8	Loan Forgiveness for Child Care Providers	1.0
Alcohol Abuse Reduction	24.8		
Grants for Community Service for Expelled or Suspended Students	49.7		
Total Programs Eliminated = \$1.6 billion in 2003			

- ***Increases Only a Few Elementary and Secondary Programs*** — The budget increases funding above the 2003 enacted level for only a few elementary and secondary education programs, including:
 - ▶ ***Title I*** grants to Local Educational Agencies (LEAs) receive \$12.4 billion. This is \$444 million (3.7 percent) above the amount needed to maintain services at the 2003 level, and \$666 million (5.7 percent) over the 2003 enacted level. However, it is still \$6.1 billion below the 2004 authorized level;
 - ▶ ***Reading First*** receives \$1.2 billion. This is \$82 million (7.7 percent) above the 2003 enacted level;
 - ▶ ***Charter Schools*** receive \$320 million. This is \$96 million (43.2 percent) above the 2003 enacted level; and
 - ▶ ***School Choice*** programs receive \$100 million. This is \$74 million (287 percent) above the 2003 enacted level.

- ***Education Tax Credits*** — The budget reprises last year’s proposed tax credit to offset the cost of attending a private or public school for students in failing public schools. This tax credit costs \$226 million in forgone taxes and new government spending in 2004, and \$3.3 billion over five years (2004-2008). The budget contains another proposed tax credit beginning in 2004 to allow teachers to deduct certain out-of-pocket classroom expenses, costing \$23 million in 2004 and \$1.0 billion over 2004-2008. The budget also expands the current tax credit for teachers who work for five years in high-poverty schools to allow qualifying science, math, and special education teachers to have up to \$17,500 of their student loans forgiven. This expansion costs \$178 million in 2004, and \$384 million over five years. Because tax credits are not appropriated funding, these costs do not appear in the total of appropriations for Function 500.

Postsecondary Education

- ***Cuts Maximum Pell Grant*** — The budget cuts the maximum Pell Grant award by \$50 from the 2003 enacted level of \$4,050. It is the second straight year that the President has proposed keeping the maximum award at \$4000. This is in stark contrast to the last six years, in which Congress raised the maximum grant by totals ranging from \$50 up to \$450. The President’s 2004 budget provides \$549 million less than Pell Grants need even for a maximum award of \$4,000; last year the Administration chided Congress for not appropriating enough to cover the bills, but this year its own budget admits that the program will run a deficit for 2004.

- ***Cuts Campus-Based Financial Assistance*** — The 2004 budget reduces campus-based aid by \$160 million (8.2 percent) below the amount required to maintain purchasing power at the 2003 level and by \$127 million below the 2003 enacted level. The budget cuts Perkins loans to \$68 million, which is \$102 million (60.3 percent) below the amount

needed to maintain purchasing power at the 2003 level. The budget cuts Supplemental Educational Opportunity Grants (SEOG) to \$725 million, which is \$48 million (6.2 percent) below the amount needed to maintain purchasing power at the 2003 level. It freezes Work Study at the 2003 enacted level of \$1.0 billion, which is \$10 million below the amount needed to maintain purchasing power at the 2003 level.

- ***Slashes Direct Aid to Students*** — The budget eliminates four student aid programs. In addition, it cuts the program that provides child care for student-parents to \$15 million, which is 7.4 percent below the 2003 enacted level, and for the second year in a row freezes all other assistance for students at their 2002 enacted levels, thus undoing the increases enacted for 2003. This includes cutting TRIO by \$25 million (3.0 percent) and GEAR-UP by \$8 million (2.8 percent) below the 2003 enacted level.
- ***Cuts Aid to Higher Education Institutions*** — The budget cuts aid for institutional development by \$3.6 million (1.0 percent) from the 2003 enacted level. The budget increases funds only for Historically Black Colleges and Universities, which receive \$224 million, an increase of 3.0 percent above the amount needed to maintain purchasing power at the 2003 level and of 4.7 percent above the 2003 enacted level of \$214 million. The budget cuts all other programs below the 2003 enacted level: Historically Black Graduate Institutions receive \$53 million, tribally controlled colleges and universities receive \$19 million, and Alaska Native and Native Hawaiian-serving Institutions receive \$4 million, which is less than half the 2003 enacted level. In a separate category, the budget provides \$94 million for Hispanic-serving Institutions, essentially a freeze at the 2003 enacted level.

Employment and Training

As the country struggles out of an economic recession, the budget cuts appropriations for training and employment programs to \$6.8 billion, a cut of \$179 million below the 2003 enacted level and of \$259 million below the amount needed to maintain purchasing power at the 2003 level.

- ***Cuts Adult Training*** — The budget includes \$3.1 billion for a new block grant that combines three programs (adult training, dislocated workers, and the Employment Service state grants), a cut of \$60 million below the 2003 enacted level.
- ***Freezes Youth Training Activities*** — The budget essentially freezes funding for youth activities at the 2003 enacted level of \$1.0 billion. It creates a new Youth Grants program that replaces Youth Opportunity Grants as well as other youth programs.

- ***Re-employment Accounts*** — The budget includes a new two-year entitlement program to provide certain unemployed individuals with up to \$3,000 to purchase training or services they need to find a job. This costs \$1.6 billion in 2003 and \$2.0 billion in 2004.

Social Services

The budget provides \$11.5 billion for social services programs for 2004, essentially equal to the amount needed to maintain purchasing power at the 2003 level. Only community service programs get a substantial increase; all other programs are at or below the amount needed to maintain services at the 2003 level.

- ***Head Start*** — The budget includes \$6.8 billion for Head Start, only \$59 million (0.9 percent) above the amount needed to maintain purchasing power at the 2003 level and \$192 million (2.9 percent) over the 2003 enacted level. The Administration asserts that this slight increase, coupled with changes it proposes for Head Start's reauthorization, will allow Head Start to offer services to 10,500 more children. The Administration's budget numbers show Head Start funding transferring from the Department of Health and Human Services to the Department of Education in 2005.
- ***No Increase for Social Services Block Grant (Title XX)*** — The budget keeps funding for the Social Services Block Grant at \$1.7 billion, frozen at the 2003 enacted level. This grant provides states with broad discretion to use these funds for social services such as child care, child welfare, home-based services, employment services, adult protective services, prevention and intervention programs, and special services for the disabled.
- ***Increases National Service*** — The budget includes \$962 million for the Corporation for National and Community Service, an increase of \$211 million (28.1 percent) above the amount needed to maintain purchasing power at the 2003 level. This total includes \$313 million to enroll 75,000 volunteers in AmeriCorps, and \$212 million for Senior Corps.

Cultural Agencies

- ***National Endowments*** — The budget provides \$117 million for the National Endowment for the Arts, exactly what is needed to maintain purchasing power at the 2003 level, and \$2 million more than the 2003 enacted level. It provides \$152 million for the National Endowment for the Humanities, which is \$24 million (18.8 percent) above the amount needed to maintain purchasing power at the 2003 level and \$27 million over the 2003 enacted level. Part of the increase is to expand the We the People initiative to promote the study of U.S. history, institutions, and culture.

- ***Cuts Smithsonian Construction and Repair*** — The budget provides \$567 million to operate the Smithsonian Institution. Of that, repair and construction costs receive \$90 million, which is \$9 million (9.1 percent) below the level needed to maintain purchasing power at the 2003 level. The budget quotes a 2001 study that estimated the Smithsonian needs \$1.5 billion for repairs over the next 10 years to return its buildings to a state of good repair. However, the President’s budget provides only \$468 million for that purpose over the next five years, far below the pace needed to meet the goal.
- ***Corporation for Public Broadcasting*** — By custom, the Corporation for Public Broadcasting receives an appropriation two years in advance. Congress in 2002 enacted \$380 million in appropriations for 2004. The President’s 2004 budget ends the practice of such “advance appropriations” and does not include new funding for 2006.

Function 550: Health

In Function 550 (Health), appropriated programs include most direct health care services programs. Other health programs in the function fund anti-bioterrorism activities and national biomedical research, protect the health of the general population and workers in their places of employment, provide health services for under-served populations, and promote training for the health care workforce. For 2004, funding for the National Institutes of Health (NIH) represents over half (55.9 percent) of all discretionary funding. The major mandatory programs in this function are Medicaid, the State Children's Health Insurance Program (SCHIP), and Tricare-for-Life (health care for Medicare-eligible military retirees).

Overview

- **Overall Appropriated Increase** — The President's budget¹⁶ provides \$49.6 billion for appropriated programs in Function 550 (Health) for 2004, a cut of \$833 million (1.7 percent) from the amount needed to maintain purchasing power at the 2003 level. As compared to the 2003 enacted level, the budget increases funding by \$152 million, an increase of less than one-third of a percent (0.3 percent).
- **Overall Mandatory Increase** — Over five years (2004-2008), the budget increases mandatory spending by \$43.8 billion relative to current law. This increase is due to payments for the refundable portion of a new health insurance tax credit, funding for emergency preparedness and response at the Department of Homeland Security, and increased funding in the first five years (2004-2008) for Medicaid and SCHIP.
- **Radical Restructuring of Medicaid and SCHIP** — The President's budget attempts to abdicate responsibility for health care coverage for the low-income by block-granting the Medicaid and SCHIP programs at state option. This radical change in the programs' structure may lead to benefit and eligibility cuts, and will tie states' hands down the road by capping funding levels.

¹⁶ References to the President's budget reflect the amount requested, not CBO's March re-estimate of the budget.

Medicaid and SCHIP

- ***Lowers Overall Spending for Medicaid and SCHIP***

— The Administration includes a number of policies for Medicaid and SCHIP, some that spend money and others that save money, but overall funding is cut by \$3.2 billion over ten years.

Medicaid and SCHIP Proposals

(Outlays in Millions of Dollars)

	5-Yr Total	10-Yr Total
Medicaid and SCHIP Block Grant Option	8,944	-66
Disability Initiatives	993	1,338
Medicaid Rebate Reform	-2,409	-6,421
Other Medicaid/SCHIP Proposals	2,257	2,687
Medicaid Effects of SSI/CSE Proposals	-123	-700
Total Medicaid and SCHIP Proposals	9,662	-3,162

- ***Attempts to Dismantle Medicaid's Guarantee of Health Care for Low-Income Individuals***

— The budget provides \$3.3 billion in 2004, and \$12.8 billion over seven years, for states willing to block-grant their Medicaid programs. However, these funds actually represent a loan since states would have to pay back all that money over three years, from 2011 to 2013. States that accept this option could cut benefits for certain Medicaid populations. States may also have to cut benefits further in order to pay back the money, and even deeper cuts would come if block grants do not keep pace with enrollment and inflation increases.

How Much Does It Cost, Really?

The budget presentation of Medicaid and SCHIP policies is somewhat misleading. The budget shows the cost of each policy in a block grant world where half the states agree to block grant their programs. However, the cost of these policies differs if the block grant proposal is not enacted, or if the number of participating states varies from the Administration's assumption.

The table below compares spending over ten years (2004-2013) for the Administration's Medicaid and SCHIP policies with and without block grants.

Medicaid/SCHIP Policies With and Without Block Grants (Outlays in millions)

	10-Year Total with block grant	10-Year Total without block grant
Block Grant	-66	Not applicable
Disability	1,338	2,766
Medicaid Rebate Reform	-6,421	-13,200
Other Proposals	2,687	5,510
SSI/CSE Effects	-700	-1,437
Total Costs	3,162	-6,361

- ***Creates Options for People with Disabilities***— The budget includes \$1.3 billion over ten years to promote work incentives and home and community-based care options for people with disabilities.
- ***Extends Transitional Medicaid Assistance and SCHIP Funds***— A series of other policies increase spending by \$2.7 billion over ten years that include reforming and extending Transitional Medicaid Assistance for five years, and extending for one year any SCHIP funds scheduled to expire on October 1, 2003. The budget does not reinstate \$1.2 billion in SCHIP funds that expired on October 1, 2002.
- ***Rebasing Prescription Drugs Lowers Costs*** — The budget decreases Medicaid spending by \$6.4 billion over ten years relative to current law by revising the base formula used to calculate the Medicaid drug rebate.
- ***Interactions with Supplemental Security Income and Child Support Enforcement*** — The budget includes proposals for Supplemental Security Income (SSI) and Child Support Enforcement (CSE), both of which affect Medicaid spending. For further discussion of these proposals, see *Function 600 (Income Security)*.

Health Care for Military Retirees

- ***Tricare-for-Life***—The budget projects current law spending of \$26.8 billion over five years (2004-2008) for military-retiree health care benefits.

Health Programs Subject to Annual Appropriations

- ***Anti-Bioterrorism*** — The transfer of many homeland security activities from other agencies to the new Department of Homeland Security has complicated the task of comparing resources provided for particular programs and activities for 2004 and for previous years. For most accounts, comparisons between the 2004 request and 2003 enacted appropriations cannot be made yet, because neither CBO nor OMB has yet determined how much of the 2003 enacted appropriations should be classified as funding homeland security activities. As a result, this analysis generally compares the 2004 request with the estimated 2003 levels provided by OMB in the President's budget documents.

For the fight against bioterrorism, the budget includes 2004 funding of \$3.6 billion at HHS, \$1.0 billion at the Department of Homeland Security, and other, smaller amounts at other agencies.

— ***HHS Anti-Bioterrorism Funding*** of \$3.6 billion is a decrease of \$233 million from the President's request for 2003. The decrease is due to one-time costs in 2003 for

building security and the shift of anthrax vaccine procurement funding to the Department of Homeland Security. The Public Health and Social Services Emergency Fund (PHSSEF) receives \$1.8 billion of the HHS anti-bioterrorism budget in 2004. The PHSSEF funds state and local preparedness and federal medical and public health response at the Centers for Disease Control and Prevention (CDC), Health Resources and Services Administration (HRSA), and Substance Abuse and Mental Health Services Administration (SAMSHA). The rest of the HHS anti-bioterrorism funding goes to the Food and Drug Administration for food safety and to the National Institutes of Health for research, and also includes \$100 million in new funds to develop influenza vaccine production capacity.

- ***Department of Homeland Security Anti-Bioterrorism Funding*** of \$1.0 billion contains \$400 million for the Strategic National Pharmaceutical Stockpile and a proposal for mandatory spending to purchase biodefense countermeasures, such as smallpox and anthrax vaccines. For 2004, this proposal spends \$575 million (the 2004 budget authority for this proposal is \$890 million). For a broader discussion of homeland security funding, see *Homeland Security*.
- ***National Institutes of Health (NIH)*** — For 2004, the budget provides funding for NIH of \$27.7 billion and an overall program level of \$27.9 billion. This program level is only a \$182 million (0.7 percent) increase over the amount needed to maintain purchasing power at the 2003 level. As compared to the 2003 enacted level, this is a \$730 million increase (2.7 percent). However, another number often cited is that this is a 2.0 percent increase (\$549 million) above the President’s 2003 request.

The Administration asserts that the exclusion of one-time costs in 2003 results in an actual increase of 7.5 percent for research funding above the 2003 request, but this logic is flawed. The Administration *includes* \$1.4 billion in one-time construction and anthrax procurement costs in their 2003 total in order to claim doubling of NIH, but then immediately turns around and *excludes* that \$1.4 billion from the 2003 total in order to claim a 2004 research funding increase of 7.5 percent. In effect, the Administration takes credit for the money twice.

- ***Childhood Immunizations*** — The budget provides \$1.7 billion for 2004 for vaccines for children. Within this amount, the budget shifts \$110 million from CDC to the Medicaid Vaccines for Children program (VFC), providing a total of \$511 million in funds appropriated to CDC and \$1.1 billion for VFC. In addition to funding existing activities, this amount provides for three new Administration initiatives: 1) expanding the number of clinics that provide vaccines to under-insured children (those whose private insurance does not cover vaccinations); 2) building up a national stockpile of childhood vaccines; and 3) restoring tetanus and diphtheria vaccines to the VFC program.

- ***Substance Abuse and Mental Health Services Administration (SAMHSA)*** — The budget funds SAMHSA at \$3.4 billion for 2004, an increase of \$201 million (6.3 percent) above the amount needed to maintain purchasing power at the 2003 level. This is a \$255 million increase (8.1 percent) over the 2003 enacted level. The Administration creates a new, \$200 million drug treatment voucher program, but the increase is partially offset by cuts to mental health and substance abuse prevention activities.
 - ***Substance Treatment Activities*** receive \$2.3 billion, an increase of \$298 million (14.6 percent) above the amount needed to maintain purchasing power at the 2003 level and an increase of \$333 million (16.6 percent) over the 2003 enacted level. New vouchers for treatment activities could be used at a range of providers, including those that are faith-based.
 - ***Substance Abuse Prevention Activities*** are funded at \$148 million, a cut of \$53 million (26.2 percent) below the amount needed to maintain purchasing power at the 2003 level. This is a cut of \$49 million (24.9 percent) below the 2003 enacted level.
 - ***Mental Health Activities*** receive \$834 million, \$37 million (4.3 percent) below the amount needed to maintain purchasing power at the 2003 level and \$22 million (2.6 percent) below the 2003 enacted level.

- ***Centers for Disease Control and Prevention (CDC)*** — The budget includes \$4.2 billion for CDC, a cut of \$212 million (4.8 percent) below the amount needed to maintain purchasing power at the 2003 level and a cut of \$121 million (2.8 percent) below the 2003 enacted level. However, part of the cut is explained by the transfer of \$110 million from CDC to the Medicaid Vaccines for Children program. The CDC budget also includes \$100 million in new funds for a disease prevention initiative targeted at preventing diabetes, asthma, and obesity. CDC buildings and facilities are funded at \$114 million, a cut of \$158 million (58.1 percent) from the amount needed to maintain purchasing power at the 2003 level and a cut of \$152 million (57.2 percent) from the 2003 enacted level.

- ***Food and Drug Administration (FDA)*** — The budget funds FDA at \$1.4 billion, a cut of \$20 million (1.4 percent) below the amount needed to maintain purchasing power at the 2003 level, but an increase of \$24 million (1.8 percent) above the 2003 enacted level. The FDA budget also includes \$13 million for reviewing and ensuring the safety of generic drugs. FDA spending also consists of an additional \$307 million in user fees, including a new user fee of \$5 million for animal drug reviews.

- ***Indian Health Service (IHS)*** — The budget funds IHS at a program level of \$3.6 billion for 2004, a cut of \$27 million (0.7 percent) from the amount needed to maintain purchasing power at the 2003 level. This funding level is \$97 million (2.8 percent) above the 2003 enacted level.
- ***Ryan White AIDS Programs*** — For 2004, the budget funds Ryan White AIDS programs at \$2.0 billion. This is a decrease of \$18 million (0.9 percent) below the amount needed to maintain purchasing power at the 2003 level, but a \$17 million (0.9 percent) increase above the 2003 enacted level. HHS asserts that the additional funds will support the purchase of medications for over 9,000 additional persons living with HIV/AIDS.
- ***Cuts Title X Family Planning*** — The budget of \$265 million for Title X family planning programs is a cut of \$13 million (4.7 percent) below the amount needed to maintain purchasing power at the 2003 level and an \$8 million cut (3.1 percent) from the 2003 enacted level.
- ***Maternal and Child Health (MCH) Block Grant*** — For 2004, the budget provides \$758 million for the Maternal and Child Block Grant and Traumatic Brain Injury Grant Programs, a cut of \$5 million (0.7 percent) below the amount needed to maintain purchasing power at the 2003 level. This funding level is a \$19 million increase (2.5 percent) over the 2003 enacted level.
- ***Freezes Healthy Start*** — The budget funds Healthy Start at \$99 million, virtually a freeze at the 2003 enacted level (\$98 million) and the amount needed to maintain purchasing power at the 2003 level (\$100 million). Healthy Start supports programs in high-risk communities to reduce low birth weight, inadequate prenatal care, and other factors contributing to infant mortality.
- ***Slashes Health Professions Training*** — Health Professions Training programs are funded at \$108 million in 2004, a \$321 million cut (74.8 percent) from the amount needed to maintain purchasing power at the 2003 level, and a \$313 million cut (74.4 percent) from the 2003 enacted level. Within the amount provided is \$27 million for Nursing Loan Repayment and Scholarship Programs, a nearly three-fold increase from the \$10 million provided for 2002.
- ***Eliminates Community Access Program (CAP)*** — The budget eliminates the community access program, which received \$119 million for 2003. CAP funds grants to coordinate health care services to the under-insured and uninsured offered by community providers such as public hospitals, community health centers, and disproportionate share hospitals.

- ***Slashes Telehealth Activities*** — For 2004, the budget cuts telehealth activities 78.1 percent below the amount needed to maintain purchasing power at the 2003 level, providing funding of \$6 million. This funding level is a \$21 million cut (77.7 percent) below the 2003 enacted level.
- ***Slashes Rural Health Activities*** — The budget provides \$80 million for rural health activities, a \$52 million cut (39.2 percent) from the amount needed to maintain purchasing power at the 2003 level and a \$49 million decrease (38.2 percent) from the 2003 enacted level.
- ***Cuts Children’s Hospital Graduate Medical Education (GME)*** — The budget funds pediatric GME at \$199 million, \$96 million (32.6 percent) below the amount needed to maintain purchasing power at the 2003 level and \$91 million (31.4 percent) below the 2003 enacted level. These funds are currently used by children’s teaching hospitals to offset the higher costs of providing advanced training to pediatricians.
- ***National Health Service Corps (NHSC)*** — For 2004, the budget provides \$212 million for NHSC, a \$38 million increase (21.7 percent) above the amount needed to maintain purchasing power at the 2003 level. This funding level is \$41 million (23.9 percent) above the 2003 enacted level. Through its scholarship and loan programs, the NHSC places physicians in medically under-served areas, which often have a high rate of uninsured persons. NHSC physicians are often the mainstay of the health care workforce for institutions, such as community health centers and disproportionate share and public hospitals, that serve the under-insured or uninsured.
- ***Boosts Funds for Community Health Centers*** — For 2004, the budget funds community health centers at \$1.6 billion, an increase of \$95 million (6.2 percent) above the amount needed to maintain purchasing power at the 2003 level and an increase of \$122 million (8.1 percent) over the 2003 enacted level. These centers serve low-income and uninsured people and often rely on the NHSC for physicians to provide care to their patients and work with the CAP providers to coordinate care for the uninsured. The increase for Community Health Centers also includes \$45 million for the Health Centers Tort Claim Fund, a three-fold increase from the \$15 million provided for 2002.
- ***Food Safety and Inspection Service (FSIS)*** — For 2004, the budget provides FSIS with a program level of \$896 million, a 1.5 percent increase over the amount needed to maintain purchasing power at the 2003 level needed and a 4.9 percent increase over the 2003 enacted level. This counts user fees of \$222 million, including \$122 million in new fees that will be charged to industry for federal inspection overtime costs. These new costs may very well be passed on to consumers.

- ***Occupational Safety and Health Administration (OSHA)*** — The budget funds OSHA at \$450 million, a freeze at the 2003 enacted level, but a \$13 million cut (2.8 percent) from the amount needed to maintain purchasing power at the 2003 level.
- ***Mine Safety and Health Administration (MSHA)*** — For 2004, the budget provides \$267 million, a cut of \$16 million (5.7 percent) below the amount needed to maintain purchasing power at the 2003 level and a cut of \$6 million (2.2 percent) below the 2003 enacted level.

Health Care Tax Credits

- ***Tax Credits for the Uninsured*** — The budget creates a refundable income tax credit for health insurance costs for those who do not have public or employer-provided health plans. The credit provides a subsidy for a percentage of the health insurance premium, up to a maximum credit of \$1,000 per adult and \$500 per child (for up to two children). A two-parent family with two or more children would be eligible for a maximum credit of \$3,000. The maximum subsidy percentage is 90 percent for low-income taxpayers and phases down with income. The credit could also be used in state-sponsored private purchasing pools. While these types of tax credits appear to be an easy way to help people gain coverage, the individual market is not the answer for most uninsured people.

Function 570: Medicare

Function 570 (Medicare) includes only the Medicare program. Appropriated funds are used to administer and monitor the Medicare program. Medicare benefits comprise almost all of the mandatory spending in this function.

Appropriations

- ***Administration of Medicare*** — For 2004, the President's budget¹⁷ funds Medicare administrative activities at \$3.7 billion, a cut of \$198 million (5.0 percent) below the amount needed to maintain purchasing power at the 2003 level and a \$65 million decrease (1.7 percent) from the 2003 enacted level. The budget includes \$201 million in new user fees for duplicate claims processing and provider appeals filing.

Medicare Trust Fund

- ***Denying the Surplus in the Medicare HI Trust Fund*** — The budget continues to deny that a Medicare HI Trust Fund surplus exists. Like last year, the budget explains Medicare financing in a manner that portrays the use of general revenues as a deficit instead of as a financing mechanism designed to facilitate a sound program. Although the budget ignores the Medicare Trust Fund for rhetorical purposes, the budget uses all of the 2004 HI surplus of \$27.1 billion to finance priorities such as additional tax cuts.

Medicare Spending Trends

- ***Medicare Growing at Five Percent Annually*** — The budget projects that Medicare net mandatory spending will be \$249 billion in 2004 under current law¹⁸. Over five years (2004-2013), total spending grows an average of five percent annually, with total spending for the five-year period projected as \$1.4 trillion.

¹⁷ References to the President's budget reflect the amount requested, not CBO's March re-estimate of the budget.

¹⁸ Net mandatory spending reflects total spending on benefits, less the amount collected from beneficiaries in the form of premiums. This number excludes administrative costs.

Medicare Reform and Prescription Drug Proposal

- ***Budget Includes \$400 Billion for Medicare*** — The budget increases Medicare net mandatory spending by \$6 billion in 2004 and \$400 billion over ten years (2004-2013), compared to projected spending under current law. This funding is for prescription drugs as well as a number of other changes to the Medicare program. The budget does not indicate how much of the total is explicitly for prescription drugs and the Administration fails to outline specifics of the planned Medicare reforms for the third year in a row.
- ***Prescription Drug Coverage is Inadequate*** — While it is unclear how much of the \$400 billion is for prescription drugs, even the total amount is insufficient to provide a meaningful prescription drug benefit. The House Republicans' prescription drug package was inadequate last year at \$350 billion; \$400 billion may not be enough to provide the same benefits this year. The budget offers vague promises instead of providing specifics on the type and amount of assistance seniors will receive.
- ***Plan Likely to Push Seniors Into Private Plans*** — The President's plan for Medicare reform relies heavily on the development of a market-based system in which private plans compete for beneficiaries. While one of the President's "principles" for Medicare reform promises that all current beneficiaries and those approaching retirement can keep their current Medicare benefit package, the budget documents fail to provide an explicit guarantee that seniors can get prescription drugs if they stay in the current system.
- ***Other Reforms Proposed*** — As part of the overall reform plan, the budget also includes changes to Medicare cost-sharing so that the Medicare benefit is more closely aligned with insurance packages offered in the private-sector. Such changes may include protection against high out-of-pocket costs in the form of catastrophic coverage and modifications to cost-sharing for preventive services in order to ensure that these costs faced by seniors are not hindering access to preventive services. Depending on how it is developed, a restructuring of cost-sharing can result in many seniors paying more out-of-pocket, and others paying less.
- ***Provider Payment Increases for Some, Cuts Possible for Others*** — The budget includes payment increases for physicians and Medicare managed care (Medicare+Choice). For physicians, the budget includes a change to the payment formula for actual data in the current and previous update systems. For Medicare+Choice, the Administration believes payments should be increased by linking plan payments to the cost of providing health care, including prescription drugs. For all other providers, the Administration points to sources (e.g., Medicare Payment Advisory Commission and the General Accounting Office) that say many providers are overpaid, and indicates a willingness to consider provider cuts in order to pay for the overall Medicare package.

Other Medicare Proposals

- ***Payment Changes for Outpatient Drugs*** — While not a formal proposal, the budget signals the Administration’s intent to pursue legislation that modifies how Medicare pays for outpatient drugs currently covered by the program.

Function 600: Income Security

Function 600 consists of a range of income security programs that provide cash or near-cash assistance (e.g., housing, food, and energy assistance) to low-income persons, and benefits to certain retirees, persons with disabilities, and the unemployed. Housing assistance programs account for the largest share of discretionary spending in this function. Major federal entitlement programs in this function include Unemployment Insurance, food stamps, Temporary Assistance to Needy Families (TANF), child care, and Supplemental Security Income (SSI). The function also includes spending associated with the refundable portions of the Earned Income Tax Credit (EITC) and Child Credit. Federal and other retirement and disability programs, which make up approximately 30 percent of funds in this function, are discussed here and in *Function 950 (Undistributed Offsetting Receipts)*.

The President's budget includes proposals that represent a stark departure from the government's traditional commitment to funding programs at the levels of estimated need. Most dramatically, the budget gives states the option to convert Medicaid and the State Children's Health Insurance Program (SCHIP) – programs that provide health care for all eligible low-income disabled, elderly, children, and families – into block grants. See *Function 550 (Health)* for a discussion of Medicaid and SCHIP. The budget also converts the government's primary rental housing voucher program into a block grant to be administered by states. In addition, the budget includes a "flexible grant" option for foster care assistance.

In 2004, the President's budget provides \$273.7 billion for the mandatory programs in Function 600, an increase of \$1.2 billion from projected spending under current law. Over five years, the budget increases spending relative to current-law projections by \$22.3 billion. This additional spending over five years includes the following: \$1.5 billion for welfare and related family support programs, \$2.4 billion for an initiative to devolve responsibility for unemployment insurance administration financing to the states, and \$18.5 billion to raise the child tax credit in 2003.

The budget provides \$45.9 billion in funding for 2004 for discretionary programs in Function 600, a decrease of \$2.5 billion from the amount needed to maintain purchasing power at the 2003 level.¹⁹

¹⁹The President's levels in this section reflect the amounts requested in the President's budget, not CBO's March re-estimate of the budget.

Welfare and Related Family Support Programs

Most provisions of the landmark Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) were set to expire at the end of 2002. Congress did not enact a comprehensive reauthorization last year but extended the program through continuing resolutions in the interim. PRWORA replaced the former federal welfare entitlement program with flexible Temporary Assistance for Needy Families (TANF) block grants, increased child care funding, improved child support collection, reduced the number of children eligible for the SSI program, reduced funding for the Title XX Social Services Block Grant (SSBG), and terminated most legal immigrants' access to means-tested mandatory benefits.

The Administration's reauthorization proposals for welfare-related programs freeze funding for some major activities but provide increases in other areas, as described below. The budget also extends for five years the Transitional Medicaid Assistance for families leaving welfare and simplifies the program. See *Function 550 (Health)* for information on Medicaid.

- ***Freezes Funding for Child Care*** — The budget once again freezes funding for the Child Care and Development Fund at the 2003 enacted level of \$4.8 billion, providing \$2.1 billion in appropriations for the Child Care and Development Block Grant, and \$2.7 billion for mandatory child care programs. The block grant funding in the budget represents a cut of \$21 million from the amount necessary to maintain purchasing power at the 2003 level. The budget freezes mandatory funding at the 2002 enacted level through 2008, further eroding purchasing power each year. The budget projects the number of children served by these programs will decline from 2.5 million in 2003 to 2.3 million in 2008.
- ***No Increase for Social Services Block Grant (Title XX)*** — The budget keeps funding for the Social Services Block Grant at \$1.7 billion, frozen at the 2003 level. This grant provides states with broad discretion to use these funds for social services such as child care, child welfare, home-based services, employment services, adult protective services, prevention and intervention programs, and special services for the disabled. Funding for the Social Services Block Grant is included in Function 500 (Education, Training, Employment, and Social Services).
- ***Changes Funding Structure for Foster Care and Adoption Assistance*** — The budget includes changes to the \$6.7 billion program to provide payments to states for foster care and adoption assistance. Funding for this entitlement program is traditionally based on estimates of numbers of eligible children and levels of assistance payments. The budget offers states the option of receiving these funds in the form of “flexible grants.” In exchange for agreeing to a fixed allocation of funding for five years, states are given

considerably more administrative flexibility and discretion as to what activities can be funded. This plan increases spending in this program relative to current law by \$40 million over ten years. The budget also includes \$60 million for education and training vouchers for youths aging out of the foster care system.

- ***Freezes Most Welfare Funding*** — The budget freezes funding for most components of the Temporary Assistance for Needy Families (TANF), including the basic state family assistance grant program, at the 2003 estimated level of \$16.7 billion in budget authority and maintains this frozen funding level for the next five years. Other components of TANF receive an increase compared with projected spending under current law, totaling \$1.6 billion over five years. The increase is due in part to reinstatement of the supplemental grant program that was funded in 2002 but by law is excluded from projections of current-law spending (\$319 million per year) and in part to the creation of grants to promote marriage and family formation (\$200 million per year). These funding increases are partly offset by a redirection of \$500 million in 2004 from a program of bonuses for high performing states (for which current law provides \$1 billion lump sums in 2004 and 2009), and the elimination of bonuses to states for reducing out-of-wedlock births. The accompanying table breaks out the major components of TANF funding over the budget window. The House Republican welfare reauthorization bill, H.R. 4, mirrors the President’s policy of freezing most welfare funding.

TANF Funding in the President’s Budget, in billions					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<i>Current law projections</i>					
Family assistance grants and other payments	16.7	16.7	16.7	16.7	16.7
High Performance Bonus	1.0	0	0	0	0
<i>Changes from current law</i>					
Supplemental Grants for Population Increases	0.3	0.3	0.3	0.3	0.3
Marriage Promotion and Family Formation Activities	0.2	0.2	0.2	0.2	0.2
Eliminate Illigitimacy Bonus	-0.1	-0.1	-0.1	-0.1	-0.1
Reduce High Performance Bonus	-0.5	0	0	0	0
Total	17.6	17.1	17.1	17.1	17.1

Current law also provides a \$2 billion contingency fund for states experiencing economic hardships. The budget includes modifications to make the contingency fund more accessible to states but projects that spending as a result of these modifications will increase by only \$50 million over five years compared with current law.

- ***Increases Child Support Collections and Gives More to Families*** — The budget includes a package of changes to increase child support collections and direct more of these payments to families without reducing the families' welfare benefits. One method in the budget for increasing collections is to set up an operation to seize gambling winnings from delinquent child support debtors, which the Administration estimates will increase collections by \$709 million over five years. The net effects of the child support proposals increase federal spending by only \$2 million in 2004-2008 and \$221 million through 2013, compared with current law.
- ***Review Policy Reduces Supplemental Security Income and Medicaid Spending by \$194 Million*** — The budget establishes a standard for reviews and accuracy in SSI disability awards that parallels a policy within the Social Security Disability Insurance program. This provision reduces 2004 - 2008 spending in the SSI and Medicaid programs by \$91 million and \$103 million, respectively. Combined savings through 2013 are \$1.1 billion. Medicaid savings are credited to Function 550 (Health).
- ***Low-Income Energy Assistance*** — The budget provides \$2.0 billion for the Low-Income Home Energy Assistance Program (LIHEAP), an increase of \$312 million from the 2003 enacted level. However, the 2003 level, following the lead of the President's 2003 budget, was \$312 million below the 2002 enacted level. The President's budget therefore merely reverses the funding reduction it put forth last year.

Unemployment Insurance (UI)

The Unemployment Insurance program is financed through a combination of state and federal taxes. State taxes pay for regular unemployment insurance benefits. Federal taxes currently support federal and state unemployment administration and retraining services, the federal government's share of extended benefits for workers out of work more than 26 weeks, and loans to states that are unable to pay benefits because they have run out of funds.

- ***Cuts Federal Unemployment Taxes and Shifts Administrative Responsibility to States*** — The President's budget again includes a package of changes to drastically reduce federal unemployment taxes and gradually give states responsibility for financing the administration of unemployment insurance. The budget reduces federal unemployment taxes paid by employers by 25 percent in 2005, with further reductions in subsequent years building to a 75 percent reduction in 2009. The budget also increases flexibility for states, provides transitional aid as states take on responsibility for administration, and changes the criteria for states to qualify for the Extended Benefits program, which is 50 percent funded by federal dollars. The combined effect of these provisions reduces federal revenues by \$7.9 billion over five years and \$13.4 billion through 2013. The package increases mandatory spending relative to current law starting in 2007, totaling

\$17.3 billion through 2013. The budget assumes a portion of this new spending would be offset by discretionary savings, since state administrative expenses will eventually no longer be funded through annual appropriations.

- ***Does Not Expand Federal Extended Benefits*** — The temporary program in current law that provides only 13 weeks of fully federally funded extended benefits to workers who exhaust their regular state unemployment benefits will start phasing out in June. The budget does not include any expansions of this program to help workers who have exhausted all federal UI benefits and remain unemployed. Instead, the budget includes \$3.6 billion over two years for “Personal Re-employment Accounts.” For further discussion of these accounts, see *Function 500 (Education, Training, Employment, and Social Services)*. By contrast, the House Democratic Economic Stimulus Plan guarantees all jobless workers at least 26 weeks of extended benefits and expands access to unemployment benefits for workers who are low-wage earners or who work part time. The budget does not appear to address the ability of low-wage workers to qualify for assistance or related national concerns about the unemployment insurance program.

Housing Assistance

The President’s budget includes \$29.8 billion in funding for all discretionary housing assistance programs, which is \$3.0 billion less than the amount needed to maintain purchasing power at the 2003 level. The budget compensates for some but not all of this shortfall by recapturing unobligated balances from prior years, as explained in the Section 8 discussion below.

- ***Eliminates Funding for Rehabilitation of Distressed Public Housing*** — The budget does not renew the HOPE VI program, which provides funding for rehabilitation and demolition of housing units identified as severely distressed. This program was funded at \$570 million in 2003; the budget provides no funding for 2004.
- ***Converts Section 8 Tenant-based Housing Assistance to a Block Grant*** — The budget converts Section 8 housing vouchers for low-income renters into a block grant program administered by states called “Housing Assistance for Needy Families,” with 2004 serving as a transition year. Under this plan, the Department of Housing and Urban Development continues to administer project-based vouchers. The budget’s funding for these two programs and related activities totals \$17.1 billion for 2004, an increase of \$1.5 billion from the 2003 level. The Administration augments this funding by recapturing \$1.1 billion of unobligated balances from prior years, for a total of \$18.2 billion. However, this combined funding is \$1.1 billion less than the amount needed to maintain purchasing power at the 2003 level and renew all expiring voucher contracts. The budget also provides \$36 million for 5,500 incremental vouchers for persons with disabilities. The policy of converting tenant-based vouchers to a block grant structure provides less

funding for this program in future years than is assumed in projections of current law. For example, the budget includes \$18.6 billion for Section 8 programs in 2008, whereas CBO projects that \$22.0 billion will be needed in that year to maintain purchasing power at the 2003 level and provide full funding to renew all expiring contracts.

- ***Erodes Public Housing Operating Fund*** — The budget provides \$3.6 billion to pay local public housing authorities for operating costs not covered by rental income. This represents a freeze at the 2003 enacted level and is \$64 million below the amount needed to maintain purchasing power at the 2003 level. This cut is further exacerbated by a \$250 million shortfall in 2002, caused by a HUD estimating error, that carried over into 2003. The budget does not include funding to address the 2002 shortfall.
- ***Cuts Funding for Critical Repairs to Public Housing*** — The budget includes \$2.6 billion for the public housing capital fund, which is a cut of \$71 million below the 2003 enacted level and \$117 million below the amount needed to maintain purchasing power at the 2003 level.
- ***Erodes Funding for Housing for the Elderly and Disabled*** — The budget includes \$1.0 billion for programs that provide supportive housing and other housing assistance for elderly and disabled populations. The amount of funding included in the budget is equivalent to a freeze at the 2003 enacted level and is \$18 million below the amount needed to maintain purchasing power at the 2003 level.
- ***Zeroes out Rural Housing and Economic Development*** — The budget eliminates this \$25 million program, which encourages new and innovative approaches to serve the housing and economic development needs of rural populations through grants to local community-based organizations.
- ***Increases Funding for Homeless Assistance*** — The budget provides \$1.3 billion for homeless assistance, an increase of \$108 million above the 2003 enacted level. The budgeted amount is \$87 million above the amount necessary to maintain purchasing power at the 2003 level. The budget also creates a new \$50 million competitive grant program, “Samaritan Housing,” to support promising local strategies for moving chronically homeless persons to permanent housing with supportive services.
- ***Increases Funding for HOME Investment Partnerships*** — The budget provides \$2.2 billion for expanding the supply and affordability of housing through construction, acquisition and rehabilitation, as well as providing rental assistance to tenants. This amount is \$210 million above the 2003 enacted level and is \$176 million above the amount necessary to maintain purchasing power at the 2003 level.

Nutrition Assistance

- ***Reauthorizes National School Lunch Program and Requires Eligibility Verification*** — As part of the Administration's reauthorization proposal for the Child Nutrition Act, the budget assumes unspecified savings by requiring families to provide documentation of their eligibility for the school lunch program. The budget states that total spending for the school lunch program will not change compared with projected spending under current law, because savings will be reinvested in the program for activities such as improving access for eligible children, evaluating the effect of program changes, and providing financial incentives to schools that serve meals meeting dietary guidelines.
- ***Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)*** — The budget includes \$4.8 billion in 2004 for WIC, enough to serve all 7.8 million people monthly who are estimated to be eligible and seeking services. This program is scheduled for reauthorization in 2004.

Spending Associated with Tax Proposals

- ***Accelerates Child Tax Credit*** — The budget accelerates to 2003 the increase in the credit, from \$600 to \$1000, that is currently scheduled to phase in from 2005 to 2010. Because this credit is refundable, this proposal will increase spending by \$300 million in 2003 and \$18.5 billion from 2004 through 2008 compared with OMB's projections of spending under current law. The Administration proposes to deliver the \$400 increase in the child tax credit to qualifying taxpayers through advance refund checks.
- ***Permanent Extension of the Enacted Tax Cut*** — The budget increases spending for the refundable portions of the child tax credit and Earned Income Tax Credit (EITC) by \$24.5 billion through 2013, compared with current law. This reflects costs associated with the permanent extension of the tax cut enacted in 2001.
- ***Earned Income Tax Credit*** — The budget includes \$100 million for a plan to reduce EITC overpayments. The plan is for claimants to provide additional information to the Internal Revenue Service to validate eligibility before payment. Much of the 2004 funding is for developing new business processes and supporting technology.

General and Federal Retirement and Disability

- ***Federal Employees Compensation Act (FECA)*** — The budget again proposes to permit the Department of Labor to charge other federal agencies full costs of administering employee injury and illness claims.

- ***Federal Employees' Pay Raise*** — The budget increases federal civilian pay rates by 2.0 percent in January 2004, well below the average 4.1 percent pay raise for military personnel. This is also the second year that the budget has ignored the tradition of “pay parity” for civilian and military employees. This is less than the 2.7 percent base pay raise mandated by federal law. The formula that has been followed in recent years is that federal employees generally receive the across-the-board raise called for by the formula, plus an average 1 percent additional increase for the locality-based portion of the pay raise.
- ***Senior Executive Service (SES) Pay*** — The budget includes a plan to raise the salary cap of the Senior Executive Service members and eliminate the six-step ladder system. The SES pay would range from about \$102,000 to \$154,700. Political appointees will have the power to set executives' salaries at any amount within that range. Agencies would bear costs in their salaries and expenses accounts.

Mandatory

- ***Black Lung Disability Trust Fund*** — The budget proposes to refinance the outstanding debt owed to the Treasury by extending the trust fund's excise tax levels on coal and provide for a one-time appropriation to compensate the general fund for the loss of interest income.
- ***Annuities of Part-Time Civil Service Employees*** — The budget proposes to simplify the computation of annuities under the Civil Service Retirement System for employees with part-time service.

See *Function 950 (Undistributed Offsetting Receipts)* for further discussion of federal retirement programs.

Function 650: Social Security

Function 650 includes mandatory spending to pay Social Security retirement and disability benefits to 45 million people, and appropriated funding to administer these programs.

- ***No Benefit or Payroll Tax Changes*** — The President’s budget proposes no changes for Social Security benefits or payroll taxes.
- ***President’s Budget Makes Long-Term Reform Impossible*** — As pointed out by the President’s hand-picked Social Security privatization commission last year, the Administration’s intention to replace Social Security with private accounts invested in the stock market is inconsistent with the budget’s projection of deficits for years to come. Reforming Social Security for the long-term, whether or not it is based on privatization, requires resources from outside of Social Security, and the President’s budget squanders those resources.

Function 700: Veterans Benefits and Services

Function 700 includes the programs of the Department of Veterans Affairs (VA) such as veterans compensation and pensions, education and rehabilitation benefits, medical care, and housing programs.

Discretionary Programs

For 2004, the President's budget provides \$28.2 billion for appropriated veterans programs.²⁰ This amount is \$785 million, or 2.9 percent, more than needed to maintain purchasing power at the 2003 level. The budget is essentially equal to the amount needed to maintain purchasing power at the 2003 level over the five-year period from 2004 through 2008.

- ***Hospital and Medical Care*** — The President's budget includes \$26.2 billion for 2004 for veterans medical care and hospital services, including \$1.2 billion in medical collections. This represents an increase of \$659 million, or 2.6 percent, over the amount needed to maintain purchasing power at the 2003 level. The budget relies on \$1.1 billion in "management savings" such as competitive sourcing to offset the overall cost of health care. Over five years, the budget request is below the amount needed to maintain purchasing power for veterans medical programs by \$539 million, or 0.4 percent.
- ***Stop Enrollment of New Priority 8 Veterans*** — On January 17, 2003, VA stopped enrolling Priority 8 veterans (those with higher annual incomes) for medical care. The budget continues this policy. According to VA budget documents, this policy will save \$371 million in 2004 and yields five-year savings of \$5.1 billion.
- ***Enrollment Fee for Priority Level 7 and 8 Veterans*** — The budget imposes a \$250 annual enrollment fee for medical care on nonservice-connected Priority 7 (higher income, nonservice-connected) veterans and all Priority 8 veterans. The budget assumes five-year savings of \$1.3 billion from this proposal.

Mandatory Programs

- ***Allen Decision*** — The President's budget assumes savings of \$1.8 billion over five years from proposed legislation reversing the 2001 *Allen v. Principi* decision that determined the impact of substance abuse could be considered in determining disability compensation if the condition was determined to be secondary to a service-connected disability. CBO estimates the five-year savings from this proposal to be just \$78 million.

²⁰ This funding reflects the amount requested in the President's budget, not CBO's March re-estimate of the budget.

Function 750: Administration of Justice

The Administration of Justice function consists of federal law enforcement programs, litigation and judicial activities, correctional operations, and state and local justice assistance. Agencies that administer programs within this function include the following: the Federal Bureau of Investigation (FBI); the Drug Enforcement Administration (DEA); the Immigration and Naturalization Service (INS); the United States Customs Service; the Bureau of Alcohol, Tobacco, and Firearms (ATF); the United States Attorneys; legal divisions within the Department of Justice; the Legal Services Corporation; the Federal Judiciary; and the Federal Bureau of Prisons.

The President's budget provides \$34.1 billion in discretionary funds for the Administration of Justice function for 2004, a \$2.1 billion decrease below the 2003 enacted level, and a \$3.2 billion decrease below the amount needed to maintain purchasing power at the 2003 level.²¹ While the budget provides slight increases for some federal law enforcement programs in this function, specifically those programs tied to Homeland Security, it significantly cuts state and local law enforcement programs in order to fund state and local preparedness initiatives under Function 450 (Community and Regional Development).

- ***Community Oriented Policing Services (COPS) Cuts*** — The Community Oriented Policing Services provides grants and other assistance to help communities hire, train, and retain police officers and improve law enforcement technologies. The budget slashes the COPS program, providing only \$158 million, a \$765 million (82.9 percent) cut below the 2003 enacted level, and a \$781 million cut (83.2 percent) cut below the amount needed to maintain purchasing power at the 2003 level.
- ***State and Local Criminal Justice and Juvenile Justice Eliminations and Cuts*** — State and local criminal justice and juvenile justice assistance programs center on combating and deterring crime. The budget eliminates most of these programs, while slightly increasing funding for federal law enforcement and directing resources to state and local terrorism preparedness initiatives under the Homeland Security Department. The eliminations include the following: Edward Byrne formula and discretionary grants; Violence Against Women Act programs; the State Criminal Alien Assistance Program; the Juvenile Justice Incentive Block Grant program; and Local Law Enforcement Block Grants. These programs would require approximately \$2.1 billion in 2004 to maintain purchasing power at the 2003 level.

²¹The President's levels in this section reflect the amounts requested in the President's budget, not CBO's March re-estimate of the budget.

- ***Office of Justice Increases*** — The Office of Justice programs coordinate and manage policies and activities for the Bureau of Justice Assistance, Bureau of Justice Statistics, National Institute of Justice, Office of Juvenile Justice and Delinquency Prevention, and the Office for Victims of Crime. The budget provides \$2.1 billion for Office of Justice programs, a \$1.9 billion (900.4 percent) increase over the 2003 purchasing power level. The budget increases go toward initiatives such as counterterrorism research and development, state and local criminal assistance programs, substance abuse programs, and juvenile justice assistance.

- ***Federal Law Enforcement Agencies*** — The budget provides \$17.6 billion for federal law enforcement programs, a \$1.3 billion increase over the 2003 enacted level, and an \$835 million increase over the amount needed to maintain purchasing power at the 2003 level. Federal law enforcement programs include agencies such as the FBI, the United States Customs Service, the United States Secret Service, the INS, and Civil Rights Enforcement Departments.
 - ▶ ***Drug Enforcement Administration Cut*** — While the budget maintains or slightly increases funding for most federal law enforcement programs at the amount needed to maintain the 2003 level, the budget cuts funding for DEA. The DEA enforces laws relating to illicit drug manufacturing and distribution. The budget provides \$1.6 billion for the DEA, an \$8 million cut below the 2003 enacted level, and a \$39 million cut below the amount needed to maintain purchasing power at the 2003 level.

 - ▶ ***Civil Rights Law Enforcement*** — The budget provides \$335 million for the Equal Employment Opportunity Commission (EEOC), a \$17 million increase over the 2003 purchasing power level. It provides \$50 million for Fair Housing and Equal Opportunity Activities, a \$3 million increase over the 2003 purchasing power level. The budget provides \$91 million for the Department of Education’s Office for Civil Rights, a \$3 million increase above the 2003 purchasing power level. The budget provides \$9 million for the Commission on Civil Rights, maintaining funding at the 2003 purchasing power level.

- ***Legal Services Corporation Cut*** — The Legal Services Corporation provides free legal assistance for people living in poverty. The President’s budget provides \$329 million for the Legal Services Corporation, an \$8 million cut below the 2003 enacted level, and a \$14 million cut below the 2003 purchasing power level.

- ***United States Attorneys Increases*** — The budget provides \$1.6 billion for United States Attorneys, a \$63 million increase over the 2003 enacted level, and a \$9 million increase over the 2003 purchasing power level.

Function 800: General Government

This function includes the activities of the White House and the Executive Office of the President, the legislative branch, and programs designed to carry out the legislative and administrative responsibilities of the federal government, including personnel management, fiscal operations, and property control.

The President's budget provides \$17.8 billion in appropriations for the general government, \$1.5 billion above the level needed to maintain constant purchasing power at the 2003 level.²²

- **Legislative Branch** — The budget includes \$3.2 billion, \$253 million above the level needed to maintain constant purchasing power at the 2003 level, for the Legislative Branch. The funding is for the operations of the House and Senate as well as support agencies such as the General Accounting Office, the Library of Congress, and the CBO.
- **Executive Office of the President** — The budget provides the Executive Office of the President (EXOP) with \$340 million, which is \$6 million or 1.8 percent above the level needed to maintain constant purchasing power at the 2003 level. This includes \$77 million for OMB, which is an 8.4 percent increase over the Administration's estimated 2003 enacted level. The EXOP also includes the White House and supporting agencies such as the National Security Council and Council of Economic Advisors.
- **Internal Revenue Service (IRS)** — The budget includes \$10.0 billion for the Internal Revenue Service, an increase of \$148 million above the level needed to maintain constant purchasing power at the 2003 level.
- **District of Columbia** — The budget includes \$237 million for the District of Columbia's criminal justice system and economic development, which is \$106 million below the level needed to maintain constant purchasing power at the 2003 level.
- **Human Capital Performance Fund** — The budget creates a \$500 million fund to be used by agencies for performance-based raises.
- **Election Assistance Commission** — The budget includes \$500 million for the Election Assistance Commission to purchase modern voting equipment.

²²References to the President's budget reflects the amount requested, not CBO's March re-estimate of the budget.

Mandatory

- ***Financial Agent Services*** — The budget provides a new permanent appropriation of \$386 million in 2004 and \$2.0 billion over five years (2004-2008) to the Financial Management Service to reimburse financial institutions for their services as depositories and fiscal agents for the public. These services include the acceptance and processing of deposits of public money as well as disbursement of and accounting for public monies.
- ***IRS Collection Contractor Support*** — The budget provides \$2 million in 2004 and \$536 million over five years in new spending to allow the Internal Revenue Service to employ private collection agents to help collect known tax debt.
- ***Payment to Alaska*** — The budget includes \$1.2 billion in 2005 and \$1.3 billion over five years in mandatory spending for payments to Alaska for drilling in the Arctic National Wildlife Refuge. See *Function 950 (Undistributed Offsetting Receipts)* and *Function 300 (Natural Resources)* for further discussion.
- ***Internal Revenue Collections for Puerto Rico*** — The budget extends for three years the higher payments it makes to Puerto Rico and the Virgin Islands based on excise taxes on rum imported from places other than Puerto Rico and the Virgin Islands. This costs \$154 million over three years (2004 - 2006).

Function 920: Allowances

This function includes a spectrum relocation fund and funding for adjustments to the legislative and judicial branches' requests.

- ***Adjustments to the Legislative and Judicial Branches' Requests*** — The budget includes cuts of \$288 million for 2004 and \$1.5 billion over the five-year period (2004-2008) from adjustments to the legislative and judicial branch accounts for excessive funding requests. Each year, these branches make a request to OMB to cover their funding needs. OMB, in turn, adjusts the overall funding level to better reflect the historical funding levels for these branches of government. However, these reductions are reflected in this function rather than in the budget functions that contain the judicial and legislative branches to maintain comity among the three branches of government.
- ***Spectrum Relocation Fund*** — Some portions of the spectrum currently occupied by federal agencies have been reallocated for auction to commercial users. To expedite the federal agencies' relocation from this spectrum, the budget establishes a new fund. Auction receipts collected under current law will be paid into the fund in amounts sufficient to cover agency relocation costs. These costs will then be paid out of the fund without further appropriation. The fund will cost \$1.7 billion in mandatory spending over the next five years. Last year's budget contained a similar proposal, which was not adopted by the Congress.

Function 950: Undistributed Offsetting Receipts

This function comprises major offsetting receipt items that would distort the funding levels of other functional categories if they were distributed to them. This function currently includes three major items: rents and royalties from the Outer Continental Shelf (OCS); the receipt of agency payments for the employer share of federal employee retirement benefits; and other offsetting receipts, such as those obtained from broadcast spectrum auctions by the Federal Communications Commission (FCC).

Offsetting receipts are recorded as “negative outlays” either because they represent voluntary payments to the government in return for goods or services (e.g., OCS royalties and spectrum receipts) or because they represent the receipt by one government agency of a payment made by another.

In 2004, the budget assumes offsetting receipts of \$53.7 billion. Over the five-year period (2004-2008), the budget assumes offsetting receipts of \$324.1 million.

- ***Federal Employee Retirement System*** — For 2004, federal agencies will pay \$39.5 billion to the federal employee retirement funds (the Civil Service Retirement System, Military Retirement System, and Federal Employees Retirement System). Employers also make payments to the Medicare Health Insurance Trust Fund and the Social Security Trust Funds on behalf of federal employees. As employees’ pay increases, agencies are required to increase their payments to these funds.
- ***Federal Employees’ Pay Raise*** — The budget increases federal civilian pay rates by 2.0 percent in January 2004, well below the average 4.1 percent pay raise for military personnel. This is also the second year that the budget has ignored the tradition of “pay parity” for civilian and military employees. This is less than the 2.7 percent base pay raise mandated by federal law. The formula that has been followed in recent years is that federal employees generally receive the across-the-board raise called for by the formula, plus an average 1 percent additional increase for the locality-based portion of the pay raise.
- ***Senior Executive Service (SES) Pay*** — The budget includes a plan to raise the salary cap of the Senior Executive Service members and eliminate the six-step ladder system. The SES pay would range from about \$102,000 to \$154,700. Political appointees will have the power to set executives’ salaries at any amount within that range. Agencies would bear costs in their salaries and expenses accounts.
- ***Postal Service Payments to the Civil Service Retirement System (CSRS)*** — The budget reduces postal service payments to the CSRS by \$2.7 billion in 2004 and \$14.9 billion over a five-year period (2004-2008). Legislation was sent to Congress in November to

address what will be considered overpayment by the postal service to cover unfunded liabilities of pension benefits for postal employees under CSRS. In January, CBO estimated that this proposal will increase the deficit by \$3.5 billion in 2003 and \$15.2 billion over the five-year period (2004-2008).

- ***Accrual Accounting of Federal Retiree Costs*** — The budget again proposes legislation to require agencies to pay upfront all retirement pension and health costs for all federal employees. Under current federal accounting procedures, these retirement costs are future mandatory payments and do not show up in agency costs. Although the costs are noted in the Appendix of the 2004 budget, they do not show up in the overall budget totals. Pending approved legislation, the budget changes this practice so that each agency shows these retirement costs as current discretionary costs, therefore increasing the need for discretionary appropriations to cover these payments.

Mandatory

- ***Arctic National Wildlife Refuge Lease Receipts*** — The budget assumes the opening of the Arctic National Wildlife Refuge (ANWR) for oil drilling to supplement the funding for renewable and related energy research. The budget assumes leasing begins in 2005, generating \$2.4 billion in receipts, with \$1.2 billion to be spent on alternative energy programs over the following seven years. See *Function 270 (Energy)* and *Function 300 (Natural Resources and Environment)* for further details.
- ***Analog Spectrum Lease Fee*** — The budget establishes a \$500 million annual lease fee on the use of analog spectrum by commercial broadcasters beginning in 2007. Individual broadcasters will be exempt from the fee upon returning their analog spectrum licenses to the Federal Communications Commission (FCC) (and thus completing their transition from analog to digital broadcasting). A similar proposal was made in last year's budget, but not adopted. The fee is expected to generate \$1.0 billion over the next five years and \$2.5 billion over the next ten years.
- ***Spectrum Auction Authority and Spectrum License User Fee*** — The budget indefinitely extends the FCC's authority to auction spectrum. This authority currently expires at the end of 2007. The budget also allows the FCC to set user fees on unauctioned spectrum licenses. These two proposals are expected to cost a total of \$3.8 billion over the next five years, but to generate \$4.1 billion over the next ten years.